

May 30th, 2007

Norm Hotson
Hotson Bakker Boniface Haden Architects
406 – 611 Alexander Street
Vancouver, BC
V6A 1E1

Dear Norm:

Development Opportunity Assessment – Youbou Lands

Harris Consulting Inc.
410-535 Thurlow St.
Vancouver, BC
Canada • V6E 3L2
Tel 604-224-2486
Fax 604-224-2497
info@harrisconsults.com
www.harrisconsults.com

As a follow-up to our recent discussions and our review of the Youbou Lands report dated November 2006, this letter provides a brief summary of our professional opinion with respect to the potential market demand for residential and commercial lands in Youbou.

In preparing this opinion letter we have drawn from several sources including BC Stats, the Cowichan Valley Regional District, Statistics Canada, and our own files. It also draws on our participation in the design workshop/charrette in Youbou in May of 2006. As a professional opinion only, this letter does not take the place of a more comprehensive market supply and demand analysis. Rather, it is intended simply to provide you and your client with an initial assessment of the potential market opportunities that may exist associated with development of this 612-acre former TimberWest sawmill site on Vancouver Island.

Regional Context

Youbou is situated on the northern shore of Lake Cowichan and is 30 km west of North Cowichan, the major population centre of the Cowichan Valley Regional District (CVRD). North Cowichan has an estimated population of 26,000 people.

While the population of the Cowichan Valley has been growing, Youbou and other communities in the western area of the CVRD, which tend to be highly dependent upon the forestry sector, have experienced significant population declines. However, the Regional District has seen overall population growth due largely to population increased in southern CVRD communities of Cobble Hill, Arbutus Ridge, Mill Bay, and Shawnigan Lake. This new growth is largely a consequence of the CVRD's proximity to the expanding Capital Regional District.



Population growth in the CVRD since 2001 has averaged 1.2% per year, increasing from about 75,000 in 2001 to over 78,000 today. In comparison, the provincial population grew by an average of 1.1% per year over this same period.

Once the dominant industry in the area, the forestry sector has seen significant declines over the past decade but still remains a vital industry in the CVRD, with a large pulp mill and newsprint mill in Crofton and other sawmills in and around Ladysmith and Duncan.

Tourism is becoming increasingly important in the region, with communities such as Chemainus establishing themselves as arts and cultural destinations. Local economic growth can also be attributed to new value-added wood product manufacturing businesses, as well as to a host of new viticulture activities. These have led to the establishment of “wine route” in the Cowichan Valley that is attracting many visitors. In addition, organic farm production and farm-gate sales and artisan businesses are also attracting visitors throughout the southern end of Vancouver Island.

Youbou Market Opportunities

The Village of Youbou, with a population of 1,150 (estimated area population including surrounding rural residents) is a community that grew and thrived as a result of the Youbou Sawmill, which operated from 1927 until it closed in 2001. We understand that the current owners of the sawmill property are now refining their plans for the long-term reuse of the site and we also understand that the site is already designated in the Cowichan Valley Official Community Plan as a “future development area”. As a future development area, the site offers, in our opinion, many opportunities.

From a market perspective, several factors need to be considered. We understand from reviewing the results of last year’s community consultation process that the CVRD and local residents wish to see this land evolve into a complete community that can offer existing and future Youbou area residents a desirable and affordable place to live and work. Local residents want their children to be able to remain in the community when they become adults and a readily available housing supply is key to this.

Population forecasts prepared by BC Stats for the Cowichan Valley estimate a slight increase in population over the next ten years. Forecasts derived from past population trends tend, in the case of communities like Youbou, to distort future growth expectations. In the specific case of Youbou, growth projections may be somewhat optimistic given that the community saw such a sharp decline in population when the sawmill closed. Given Youbou’s relatively small size, its lack of local jobs, and a declining school enrollment that has led to closure of the local school, sustaining the community’s existing population will be a challenge unless new reasons for people to move to Youbou are created. The development of the Youbou Lands could be that catalyst.



The development proposal outlined in your November 2006 report envisages a new neighbourhood in Youbou with a unique mix of uses that includes community, retail, and residential in a combination that makes a vibrant and complete community. The plan also proposes a resort and we agree that a destination resort on the shores of Lake Cowichan should be pursued. A successful resort could generate new employment in Youbou, which in turn could stimulate demand for additional housing.

Demand for new housing in Youbou could also be enhanced by new job creation throughout the Cowichan Valley. The forest industry continues to be the principal employer in the Cowichan Valley, with sawmills, pulp mills, and newsprint manufacturing taking place in Ladysmith, Duncan, and Crofton. However, given the scale of forestry activities in other nearby communities, there is likely little room for large-scale job creation within this industry sector, especially in smaller communities like Youbou. Consequently, communities such as Chemainus and others are looking to the continued development of tourism-related activities (specially arts and cultural facilities, and viticulture-related activities and other agricultural activities) as a way of stimulating local area employment creation. Small-scale value-added wood manufacturing activities are also beginning to emerge and may present some growth opportunities in communities like Youbou.

As well, the southern Cowichan Valley area is becoming a “bedroom community” as it experiences pressure from the Capital regional District. This residential growth pressure is expected to continue as population - and the cost of housing – continue to grow in the Capital Regional District.

While these potential opportunities may serve to drive economic growth in Youbou, perhaps the real driver, at least in the near-term, of economic activity in Youbou will be the development of recreational properties on some portion of your client’s site.

Throughout North America there is an increasing demand for seasonal and year-round recreational property and this demand is being met through a variety of product types and forms of tenure. These range from individual privately owned cabins and cottages through to strata-ownership of resort-like homes, townhomes, apartments, and fractional ownership of a wide array of accommodation types in a resort-like setting.

Fuelled by the maturing “baby boom” generation and an expanding property market, demand for recreational property is expected to remain very strong for the foreseeable future. The strongest demand for recreational property is typically associated with specific recreational amenities such as ocean or other waterfront or water views, or proximity to skiing, golf, ranching, sport fishing, hiking, and other outdoor activities. Convenient access within a one to two hour drive of major urban centres, or convenient air access for reaching more distant markets is essential.

The Youbou Lands are within a 90-minute drive of Victoria and the site is about 75 minutes by car from Nanaimo. By ferry it is three hours from Vancouver. Some of the competing



recreation and resort centres on and near Vancouver Island are the Comox Valley, Shawnigan Lake, Ucuelet and Tofino, and the Southern Gulf Islands. Some of the potential competing Lower Mainland destinations such as Whistler, Squamish, Cultus Lake, and Harrison Lake are all within a two-hour drive of Vancouver.

Increasingly there is demand from Alberta residents for recreational properties on the Pacific Coast and elsewhere in BC. Direct flights from major Alberta centres to Victoria and the Comox Valley place the Youbou Lands within a reasonable travel time from this important market as the Victoria airport is only about an hour and a half by car from the Youbou Lands.

The market for recreational properties in Youbou can be expected to be a mix of those living in the Cowichan Valley, elsewhere on Vancouver Island, on the Lower Mainland, as well as others drawn to the area's recreational opportunities, setting, and price. As recreational properties near major urban centres become increasingly expensive, purchasers will seek out more distant and more affordable options such as Youbou.

Some prospective purchasers of recreational property are looking in the near-term for weekend homes that can later become year-round homes – or at least seasonal homes – when they retire. Baby boomers from British Columbia, Alberta, and elsewhere are driving the recreational land market on Vancouver Island and throughout the province. Baby boomers are purchasing now, with the intent of moving to the property once they are retired. As a consequence, attractive recreational properties are seeing strong demand at this time.

In order for a new lakefront neighbourhood in Youbou to be successful from a market perspective, it will need to achieve a certain scale of development and will need to offer residents a minimum level of community and commercial amenities and facilities. Otherwise, the new neighbourhood will be challenged to attract new residents. We understand that a range of housing types is being proposed, with the potential for a total of as many as 2,100 to 2,500 residential dwelling units to be built over the next three decades.

Recreational Property Market

Given the evident demand throughout BC for individually-owned weekend and seasonal properties, especially waterfront and water view properties, we are confident that your client can successfully develop and market waterfront and water view lots to recreational users provided that they are competitively priced, attractively designed, and supported by an appropriate mix of community and commercial facilities. In our opinion there is a particularly strong opportunity to market fractional ownership product, firstly because this is an increasingly popular way for consumers to buy into the recreational property market with a relatively low capital requirement and secondly, because Youbou's distance from major urban markets would suggest somewhat less frequent use by recreational users than if the property were within, say, an hour or two of Vancouver. We speculate that as much as half of the recreational units planned for the Youbou Lands could be in fractional ownership (a



more comprehensive analysis would, of course, be needed to determine more conclusively what the actual proportion of fractional ownership might ultimately be).

Permanent Residential Market

The Cowichan Valley, like much of Vancouver Island, is experiencing moderate population growth. Long dependent on the forest industry, the Cowichan Valley's economy is beginning to diversify with the expansion of small value-added manufacturing firms and an expanding tourism industry. Many retirees have moved into the Cowichan Valley, in some cases buying homes from displaced forest workers. The Cowichan Valley will likely continue to be a popular retirement choice, especially for those now living and working in the Capital Regional District, further driving continued moderate population growth in the Valley.

When viewed as part of the entire Cowichan Valley, Youbou can be seen as having the potential to offer relatively affordable housing in a spectacular lakeshore setting and there is real potential to create affordable housing in a resort-like setting. This could be further enhanced by the inclusion of a seasonal or year-round destination resort project on the site.

Given the current absorption levels for new permanent residential units in the Cowichan Valley, we do not anticipate a rapid take-up of new lots aimed only at new permanent residents of Youbou. However, a comprehensively planned development that can blend permanent homes in a resort-like setting and that can appeal to a wide range of purchasers through a broad mix of housing types and sizes, and an array of tenure forms, can certainly be expected to successfully compete with other new residential developments and new recreational property developments.

By positioning the site to appeal to a wide spectrum of purchasers including permanent residents moving to or wishing to remain in the Cowichan Valley, seasonal and year-round recreational property buyers, and others, the time needed to build up the neighbourhood can be shortened and a more vibrant and complete community can be achieved sooner.

Another purchaser segment that could be attracted to the Youbou Lands is the growing seniors population. The maturing of the baby boom generation and the aging trend for the entire population points to an impending dramatic increase in the numbers of older Canadians. Canada will see its 65+ population more than double (from 4.1 million today to 8.7 million) in the next 25 years. Today, one in eight Canadians are 65 or older. By 2021, the ratio will be one in five and by 2041, it will be one in four. This significant shift will occur during the build out period of the Youbou Lands.

Its location and setting make the Youbou Lands a good choice for local area seniors as well as for those choosing to move within or to the south Island, provided that an appropriate level of convenience goods and services are readily available and accessible to this segment of the population as this is a group that faces decreasing ease of mobility over time. Townhouses and apartments can meet the needs of many seniors and for others;



there may be a desire at some point to have the choice of a facility offering a range of seniors care in the community.

Commercial Space Market

An essential part of any community is the active heart you refer to in your report. Commercial and community facilities and amenities are needed to draw the community together and convenience-oriented retail and services together with restaurants and other gathering places are needed to bring the community to life. These retail and service businesses require certain population thresholds in order to become established and to thrive over time.

Based on data collected by the Centre for the Study of Commercial Activity at Ryerson University, it is estimated that the provision of retail space in Canada equates to about 30 square feet per person. On this basis, an entirely self-contained market of 1,150 people (Youbou's estimated population) could, theoretically, generate demand for as much as about 35,000 square feet of retail floor space. Related service commercial space (including such things as food and beverage services, personal and professional services including finance, insurance, health and wellness offices, and other retail-related activities) would typically add another 12 to 15 square feet per person. On this basis, a community of the size of Youbou could be expected to support more than 50,000 square feet of retail and service commercial floor space. The current supply of commercial floor space in Youbou is, of course, smaller suggesting that much of the retail spending by Youbou residents actually occurs elsewhere.

Existing demand in Youbou for retail goods and services is largely being met elsewhere, including Lake Cowichan, Duncan, Ladysmith, Nanaimo, Victoria, and beyond. Youbou residents are drawn to these other areas by a number of factors including the greater retail offering that larger centres can provide. They are also drawn for other reasons such as the presence of other non-retail activities such as sports facilities, recreation opportunities, arts and cultural destinations, health care facilities and services, and other services typically more readily available in larger towns and cities. Many shopping trips are combined with other individual and family activities so that retail spending often flows from a smaller centre like Youbou to larger places, especially if a large number of residents leave the community daily to work in these other centres.

In estimating the future retail demand for the Youbou Lands, we have assumed that with a full build-out of 2,100 to 2,500 residential dwelling units the population could reach a level of about 6,000 people. Clearly, not all locally generated spending will remain in Youbou. There will continue to be an outflow of retail dollars to areas such as Victoria, Nanaimo, and elsewhere. As well, there will be some offsetting inflow spending by visitors to the community. As the shopping choices for Youbou residents continue to expand outside the community with continued growth in retail space in and around Victoria and Nanaimo especially, it is reasonable to assume that the outflow or leakage of retail dollars to other



centres will continue to grow. So while the growing population of Youbou will generate more retail spending, much of that new spending can be expected to continue to leave the local market. If development of the Youbou Lands results in a smaller number of total residential units than we have assumed for this assessment it may be very difficult to support local-serving retail and service uses and so we would urge your client to establish a targetted minimum development size otherwise it may be extremely difficult to attract the needed retail and service commercial businesses.

For convenience-oriented goods and services such as groceries, drug stores, video rentals, and other frequently visited businesses, the capture rate of spending by local residents can be expected to be quite high. For comparison-type shopping such as for apparel, Youbou residents can be expected to travel further for these less frequent shopping trips, trading off convenience for greater selection at larger retail destinations such as department stores, shopping centres, and warehouse stores.

A recreational property precinct in Youbou can be expected to create some additional demand for consumer goods and services and may help the community reach a threshold where it can support more local businesses sooner. The development of a lakeshore resort facility could also add further to the potential demand for consumer goods and services although the resort may have its own internal convenience commercial facilities.

Typically, about three quarters of all grocery and food and convenience-type merchandise is purchased locally, in community and neighbourhood-based shops. With the expansion of larger-format food stores and club stores, smaller communities such as Youbou can expect to see an erosion of this local spending on convenience goods and services.

If we assume then that only about 60% of all grocery and other food and convenience-type merchandise purchases made by Youbou residents takes place in Youbou and that about 25% of all comparison-type merchandise purchases occurs in the community, a future population of up to 6,000 people could potentially support upwards of 50,000 to 60,000 square feet of retail and service commercial floor space on the Youbou Lands. This figure assumes that recreational property owners and visitors would add inflow spending equivalent to about 20% of the permanent population's spending.

The mix of businesses within the commercial area of the Youbou Lands will need to be largely convenience-oriented and might include, for instance, a convenience store, a gas bar, video rentals, a liquor store and/or a cold beer and wine store, a coffee shop, a deli, a bakery, and other local-serving uses. In addition, we assume that there will be a commercial marina within the project and the combination of a commercial marina with the "village centre" could help establish the critical mass necessary to sustain small local-serving retailers and service providers.

As the development horizon for the Youbou Lands could be as long as thirty years it may be challenging to quickly achieve the population needed to support retail and other commercial



activity. However, if there is not a sufficient commercial offering in the early years residents will simply go elsewhere and so it is very important to ensure that the community is planned at a large enough scale to support its local businesses and that the commercial space can expand as the population grows.

Conclusions

The Youbou Lands present a unique development opportunity that can combine permanent residential development and recreational property development with a lakefront resort together with local-serving commercial space to create a vibrant and complete community. By having a number of different target markets the project can possibly accelerate absorption and this in turn will help support the commercial component. Absorption can be further enhanced by ensuring a broad mix of housing product types and price-points catering to multiple market segments including housing for seniors, fractional ownership of recreational properties, and affordable housing for local residents.

A high quality destination resort could certainly assist in the marketing of permanent and recreational properties as will a resort-like look and feel throughout the community. Finally, while there is only limited potential for commercial services, a growing local area population will certainly be able to support more retail space than is the case today and the new commercial space can be expected to meet the needs of existing Youbou residents as well as the needs of new residents and visitors.

As already noted, this professional opinion letter is not meant to take the place of a comprehensive market supply and demand analysis. It expresses our professional opinion with respect to the residential, recreational, and commercial opportunities on the Youbou Lands and our assessment is that with an ultimate target of as many as 2,100 or more dwelling units there should be strong interest on the part of retailers and service providers to establish themselves in this planned new vibrant and complete community.

Yours very truly,

HARRIS CONSULTING INC.

A handwritten signature in black ink, appearing to read 'Gordon Harris', with a long horizontal line extending to the right.

Gordon Harris, MCIP