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Developers adjust as building frenzy eases

Major projects expected to keep activity levels strong

By Monte Stewart - Business Edge
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Ample cash will again be available for Vancouver-area real estate development this year, but housing prices may decline slightly, developers told the recent Urban Development Institute's annual forecasting luncheon.

"I think what you saw this year was more caution from the speakers," said David Negrin, president of the Urban Development Institute's Pacific region chapter, who moderated the session.

Two of the three speakers - Avtar Bains, executive vice-president of Colliers International Vancouver, and Rob Macdonald of Macdonald Development Corp. - also offered their predictions at last year's forecasting event.

Negrin said developers are more conscious of potential problems than they were a year ago.

"Last year was just full-go ahead," he said in an interview.

However, he added, developers and buyers understand there's a slowing trend in real estate sales.

Negrin, also senior vice-president of business development for Concord Pacific, concurred with the speakers' claims that activity will remain strong as B.C. continues to build several major projects in advance of the 2010 Winter Olympics.

"A lot of people talk about the bubble," said Negrin. "I don't see the bubble, because if you look at the next three to four years, everybody is working in British Columbia. There's a lot of major projects that are going (on)."

Peeter Wesik, chairman of jointly owned Wesgroup Income Properties LLP and president of ParkLane Ventures, said the market will undergo a "natural correction" as prices come down, but they will head upward again around the end of the year.

In 2005, the market was driven by low interest rates and a lot of pent-up demand, Wesik added. Last year, interest rates remained low and the economy was still good, but a shortage of properties was a "big issue" and the market reacted with increases of 10 to 20 per cent.

"We don't see the market carrying on this way in 2007," said Wesik.

He suggested Alberta recreational-property buyers, who can go anywhere in B.C. by car or plane, will continue to be a key factor in the strong B.C. market. But high prices will have more of an impact on commercial projects than residential, he noted.

Office and industrial property rents will rise faster than the rate of inflation. There will be "tremendous pressure" on cap rates, which are cost-adjusted forecasts of return on investment, expressed in percentages.

Potentially low returns, and a lack of suitable properties, are prompting developers to look outside the Lower Mainland. In a reversal of sorts, Wesik said B.C. developers will take on more projects in Alberta, just as Alberta developers have moved into B.C. in the past decade.

"Calgary is a city that's on a virtual steroid-induced growth," he said, explaining why Wesgroup and other Vancouver-based firms have launched mixed-use projects in Canada's oil and gas capital.

Developers often cite high property prices as a deterrent to profit.

But Wesik said Vancouver's prices will always remain high. As a result of an "internationalization" of the city that has occurred over the past 10 years, he believes real estate values will be based on international - not local - measurements.

However, Colliers International's Bains said local factors are prompting developers to look abroad.

"What's happening internally here in the last year is that the competition has become ultra-fierce," he said.

As a result, developers have become more creative in where they place their money. In the summer of 2005, the five richest deals in Vancouver all involved Canadian financial institutions. This year, he's willing to bet that two or three of the top five transactions will involve private equity or capital markets.

Even though capitalization and liquidity are at all-time highs, the market is forcing developers to look at asset classes that they would never have considered previously, said Bains. It is inevitable, he added, that Ottawa will allow developers to roll over capital gains from projects they sell into properties they buy without paying taxes, similar to what happens with homeowners.

Macdonald echoed his claim of a year ago that B.C. will go through an unprecedented "golden decade."

But he added municipal governments, which control land use, pose the biggest risk to developers because they are "attacking and undermining" the industry through their opposition to developments.

Negrin also called on Lower Mainland city councils to cut red tape and provide greater density on for-profit projects, in return for help with non-market housing.

"As developers, we can't manage the social aspects, which (means) running the place, but we can sure help in designing it and building it for some extra-tighter density in our (other) projects," said Negrin.

The City of Vancouver has had a density-transfer program in place for many years, but many outlying municipalities have yet to adopt the practice.

Theresa Sinclair, leasing manager for Burnaby-based Bosa Development Corp., said she could relate to Macdonald's comments.

"I think it's important that people not just sit around and complain about (municipal-government opposition to projects), and that they're pro-active and tell the community to get together," said Sinclair.

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