

COVER Five years in, downtown Vancouver's spectacular housing run is showing signs of fatigue

Condo crazy

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The condominium boom that has helped transform downtown Vancouver into the most livable city in the world by some accounts – and a city in danger of becoming an elitist resort by others – is slowing but not stopping.

Veteran condo marketer **Bob Rennie** projected earlier this year that a total of just 1,138 completions would be available to buyers in downtown Vancouver up to 2010, putting Vancouver on track to see a decade worth of condos snapped up by in just seven years.

Professional and casual observers alike can't help but wonder where it's all going to end.

"Real estate's worked for the last little while, and that's probably an indication it's not going to last a whole lot longer," said **Craig Hennigar**, vice-president, real estate advisory and transaction services, in the Vancouver office of **PricewaterhouseCoopers**.

Hennigar's research suggests the Greater Vancouver market peaked in the latter half of 2004. PricewaterhouseCoopers' current review of the condo market indicates that developers plan 24,055 starts for Greater Vancouver over the next 24 months, while PwC research anticipates demand at just 13,191 units.

The outlook in individual markets varies from the regional picture but the general picture is too many units for too few buyers. Throw in slower appreciation in property values, longer lead times prior to sell-out and other indicators, and the bloom may be coming off Greater Vancouver's rosy real estate market.

Hennigar is surprised the slowdown didn't happen sooner.

Despite rising construction costs and higher interest rates, consumer appetite for product hasn't waned quite as much as one might

expect. Downtown highrise condos are commanding an average of \$770 a square foot, Hennigar said.

Though modest units are available for \$500 a square foot, suites in **Concord Pacific Group's** Erickson tower overlooking False Creek have sold for over \$2,000 a square foot. And units in **Westbank Projects Corp.'s** Fairmont Pacific Rim project have topped \$2,100 a square foot.

Stepped up

"The first attempts at raising the price were a reaction to having to pass on additional costs or stop building," Hennigar said. "And what happened was that the consumers stepped up and they were quite willing to pay that higher price. I would have thought that the consumer was tapped out already."

The market's strength becomes a bit more confusing when rents on some of the newly completed condo suites are factored in. Stats from marketing firm **Rennie Marketing Systems** indicate that investors buy upwards of 40 per cent in many projects, even though rents are well short of the amount needed to service the average mortgage.

Having crunched the numbers on a few examples, Hennigar suspects that owners are counting on a long-term lift in real estate prices to pay them back.

"They must be, mentally, adding in a growth factor to the capital value of their asset," he said, before sounding a more ominous note: "I think that probably a lot of that growth has been absorbed in the last couple of years. You can't get 20 to 30 per cent a year for a long period of time before you're totally out of what's reasonable for the market."

So, even if prices are high, is the market as strong as it seems?

While well-marketed downtown project such as Woodward's have sold above expecta-



Ace condo salesman Bob Rennie on site at the old Woodward's building on Vancouver's Downtown Eastside: highest sale day in company history.

tions, with 536 units fetching an average price of \$575 a square foot versus an anticipated \$425 a square foot, smaller projects such as **Salient Group's** 19-unit Varsity development in the affluent Point Grey neighbourhood have stalled.

Deposits refunded

The project's on hold not because buyers balked at prices, however, but because construction costs outpaced financing.

Salient refunded deposits to Varsity buyers at the end of June, and word on the street indicates a handful of other projects in the Lower Mainland may follow in its tracks.

The scenario is a familiar one for those who've been watching the Victoria market.

A mix of escalating construction costs and

sales prices that couldn't keep up has stung more than one Vancouver developer active in the capital.

Vancouver-based **Amadon Group** sold a majority interest in its 161-unit Bambu development in Victoria to **Anthem Properties Group**, which promptly turned around and refunded deposits to purchasers in January. Amadon also refunded deposits to 10 buyers in its 42-unit Castana project.

Whether buyers will be willing to pay higher prices when some of the units come back on the market is another question, of course. Amadon development manager **Roger Teja** said prices will reflect the current market conditions, although Amadon will offer the original purchasers a discount.

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Salient is also mulling where prices for the Varsity will sit when units return to the market either later this year or next spring, but president **Robert Fung** believes demand will exist.

“Projects are coming to market and projects are selling, and they’re selling based on current costs. We’re optimistic that will still be the case when Varsity turns around,” he said.

Still, there’s room for caution.

Slower Sales

San Diego, a market in which Vancouver-based **Bosa Development Corp.** has developed several projects, saw home prices decline for the first time in a decade in June. Electra, a 248-unit residential tower near the San Diego waterfront, sold out earlier this year, but Bosa vice-president, development, **Eric Martin** said Bosa’s 178-unit Legend development near Petco Park has seen slower sales. Just 60 per cent of units have sold, albeit at higher prices than the Electra.

“The market down there has taken a bit of a pause, let’s put it that way,” Martin said. “And part of the reason is price.”

Martin notes that the market in San Diego is less mature than that in Vancouver, with developers not necessarily providing smaller, less expensive units as they have here, but he doesn’t rule out the chance that high prices will put a dent in the Vancouver market.

“There’s always a relation to price. When you get more and more expensive, at some point, people say, ‘It’s getting too expensive,’” he said. “I could see that happening here.”

Smaller price increases in Vancouver doesn’t necessarily herald a slowdown, notes **Jennifer Podmore**, managing partner of Vancouver market research firm **MPC Intelligence**. In fact, she considers it the sign of a responsive, healthy market.

“We could never keep going at the pace that we had been. I think a lot of us were surprised at how long that rapid increase continued,” she said, adding: “We haven’t seen prices dropping off in any market, which would be the true sign of a slowing.”

Rennie speaks

Having racked up the biggest one-day sales total in his life with Woodward’s one-day sale in April, Bob Rennie has reason to be optimistic.

“It’s all OK,” he said, though he doesn’t expect prices to continue rising as they have been.

“We went through this, from \$305 a square foot to \$650 a square foot in the past four years. I don’t think we need to go from \$650 to \$1,000 a [square] foot in the next four years,” he said. “But with less product coming on, a stabilized rental market, continued low interest rates, everybody’s money is secure.”

The people who are buying into the market today are counting on a fundamental lack of supply in the market, Rennie believes. Woodward’s, in particular, also offered buyers a chance to participate in the appreciation in values that happens when a neighbourhood improves.

“What they’re seeing is a chance to get into downtown at a great price level and with expectations of growth through the whole area,” he said. “Given today’s construction costs and no incentives to provide affordability, you’re not going to see this price point coming back.”

For Rennie, the condos built and sold today will only become more desirable as downtown gets built out because there are increasingly few sites for development.

“The few condominiums I own I’m not selling because I can’t replace them,” Rennie said.

Those who haven’t bought into the market by now may be too late, he added, noting that the time is fast approaching when a downtown condo is beyond the reach of most Vancouver residents.

“Vancouver, downtown, may not be affordable, and it’s a fact of life.”

Affordability lies in just one direction, said Rennie, excusing what’s become a cliché over the past two years in local real estate circles: East.

Suburbs

That developers are looking east is evident not only in municipalities neighbouring Vancouver



Photo: Salient Group

Developer Robert Fung refunded deposits to buyers at the unfinished Varsity this June, citing soaring construction costs.

but as far east as Surrey where **Jung Ventures Ltd.** is developing a five-tower complex that ultimately will have 1,400 units.

“Condominium units are going to form a larger and larger proportion of the housing stock,” said **Cameron Muir**, a senior market analyst with **Canada Mortgage and Housing Corp.**, noting that densification of building sites is happening throughout the region.

Though local attitudes will continue to oscillate between confidence and skepticism in the market, creating what Podmore considers a sequence of “mini cycles,” she notes that each upswing in confidence has produced new benchmarks for prices. And she’s not talking new lows.

“Markets like Pitt Meadows and Maple Ridge, Port Moody, areas of Burnaby and definitely the South Surrey-Grandview markets are going to be setting new price points,” she said. “Those are going to be where you see the most dramatic increase in pricing.”

Developments within Vancouver are also going to benefit in proportion to their connection with local amenities, Podmore added.

Access to rapid transit, for example, will play a big role (as **PCI Group** has found at

Broadway and Cambie with its Crossroads development), as will proximity to high-profile projects such as Woodward’s and the athletes’ village planned for Southeast False Creek. Properties near both developments are seeing or are expected to see rising values.

Podmore said developers who research their market and take the time to court their buyers are faring well. “They’re working with their prospective buyers for months before they actually come to market, so those buyers are completely ready to purchase,” she said. “Woodward’s didn’t come out of the woodwork.”

Speculation

Despite unprecedented appreciation, there has been little speculation during the current cycle, according to a **B.C. Central Credit Union** study earlier this year. The study, which tracked homes that were sold within six months of being purchased – the traditional definition of speculation – showed that only five per cent of homes are being “flipped.” This compares with 10 per cent of all MLS sales during the 1989 market peak and 20 per cent during the 1981 peak, according to the Credit Union. ♦