FEATURE Suspicious of evaluations, laden with inventory, developers cautious to step back into land deals

Land development

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Western Investor Newspaper
monthly commercial real estate newspaper
Vancouver, BC
September 2010 issue

With many developers moving swiftly through their existing stock of developable land, interest is slowly growing in new development sites. Developers, some of whom were caught with excess inventory during the downturn of the past two years, have been reticent to load up sites without a clear read on the timing of a sustained resurgence in the market. The strong rebound of the past year is moderating, and many pundits are anticipating steadier – and slower – times ahead.

So what's a developer to do?

Take a long-term view and pay attention to the market, according to developers *Western Investor* contacted. While opportunities exist, hard pricing information is difficult to obtain because deals haven't been happening.

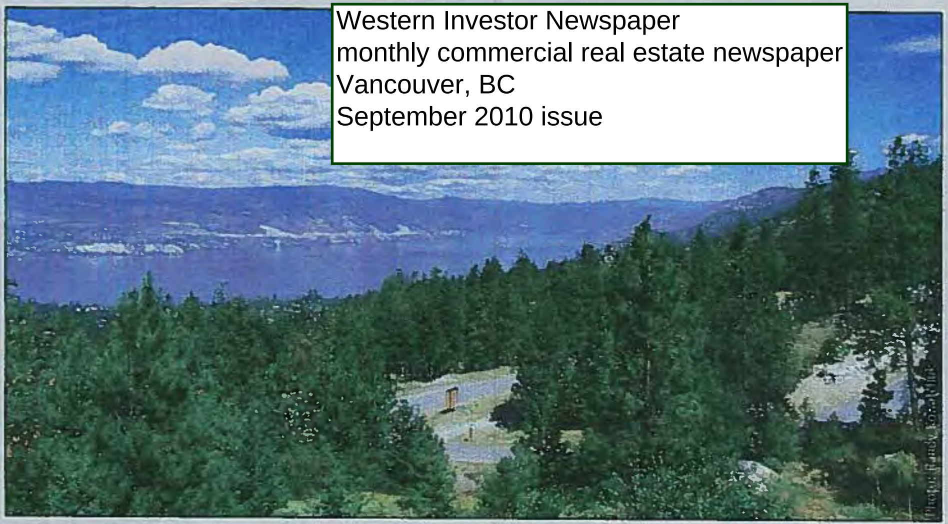
"There hasn't been a significant amount of trades," said **Andrew Tong**, senior vice-president, acquisitions and dispositions, with Vancouver-based **Concert Properties Ltd.** "There's really no evidence out there of where raw land prices are for residential/condominium product."

It's a similar story on the industrial front, where prices have been steadier but surrounded by a murk induced by a lack of trades.

It's a change from 2008, when downtown Vancouver land values crested $170 per buildable square foot on the strength of the residential development potential of sites. Pricing has cooled, but few transactions prevent an accurate read of current levels.

Sales rising

Avison Young (Canada) Inc. reports that 2009 saw land sales in Vancouver drop 37 per cent from 2008, totalling just $649.6 million. Calgary posted a 63 per cent decline, with land investment settling at $378.5 million for the year.



Benchlands development above Naramata in the Okanagan: "for smaller investors, this is the perfect time to get into the game ... you can drive a hard bargain."

There was no sign of strengthening entering 2010, with velocity in both markets losing steam as 2009 progressed. During the first half of 2010, however, sales in Vancouver picked up, topping $359.7 million – an 11 per cent increase over the same period of 2009 and a 19 per cent increase over the previous six months. Calgary, though well off 2008 tallies, saw aggregate sales values in the first half of 2010 rise to $197.3 million – up 26 per cent over the previous six months.

The rebound reflects the bullish assessment in a recent report from **Scotia Economics** that indicates land prices have become the major component countrywide in home values. The cost of land in new construction rose 2.5 times over the past decade and now accounts for half the estimated value of residential properties.

While this isn't news in B.C., which has led the trend, it underlines the pressures developers face in trying to make land deals pencil out.

The challenges have pushed more developers to the margins, making suburbs more desirable for development. Notwithstanding densification efforts in Vancouver and, more recently, Calgary, developers are keen to tackle areas with fewer barriers to development.

Development sites in Burnaby currently cost $50 to $60 per buildable square foot, **CB Richard Ellis** reports, while prices in South Surrey/White Rock run $35 to $45 a buildable square foot.

Jonathan Gelderman, a sales associate with **Re/Max Aldergrove Realty**, reels off site after site that's either sold or is slated for development, both residential and commercial. On the surface, development plans evince optimism.

Shape Properties Corp. is planning a 670,000-square-foot retail development on 20 acres just off the Trans-Canada at the Mount Lehman interchange, and a 10-acre tract on Gladwin Road that's zoned to accommodate 1,700 residential units recently sold for $9 million.

The flip side is that the Gladwin site sold for half the original list price, a sign that prices have fallen significantly for the deals that are getting done under current market conditions.

"There are a few pieces selling – at a reasonable dollar, though – but the people that

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Residential land investment activity

Market	Total 2008	First half 2009	Second half 2009	Total 2009	First half 2010
Vancouver	$1,026,150,076	$347,925,970	$301,648,757	$649,574,727	$359,685,216
Edmonton	$945,102,982	$70,381,165	$137,918,635	$208,299,800	$120,134,483
Calgary	$1,009,446,592	$222,029,219	$156,479,314	$378,508,533	$197,328,882
Toronto	$1,361,784,571	$493,685,008	$481,550,198	$975,235,206	$591,154,683
Ottawa	$97,402,293	$55,948,650	$26,264,640	$82,213,290	$1,106,999
Montreal	$769,806,878	$133,103,394	$142,099,105	$275,202,499	$154,662,122
Total	**$5,209,693,392**	**$1,323,073,406**	**$1,245,960,649**	**$2,569,034,055**	**$1,424,072,385**

Investment sales +$1M (excl. non-arms length) Courtesy: Avison Young

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are building are mostly people that have been holding land for a while," Gelderman said.

Standing inventory and the completion of new units on properties owners held onto through the downturn are going to squeeze developer margins for the foreseeable future, putting pressure on the economics of new acquisitions. Gelderman points to one complex where new units are selling for less than $200 a square foot – below the cost to build.

Slim margins

"I think profit margins are going to be very slim for developers. There's so much selection available for buyers that either the developers are going to slow down or the inventory's going to start to sit," he said. "Things are not alive or well yet."

Moreover, the downshift in pricing is making many owners reticent to sell. While there are deals to be had, well-capitalized, patient owners feel no need to give properties away.

Speaking earlier this year, Shape executive vice-president **Darren Kwiatkowski** noted that prices were still running at or above $1 million an acre, more than most commercial tenants are willing to pay.

Okanagan

Developers also remain cautious in the Okanagan, where there's land available but a lingering hangover from the boom and finished product still working its way through the system.

The rebound that allowed Lower Mainland developers to work through excess inventory in 2009 never played out in the Okanagan, where a number of projects failed with no one to step in. The bright side is the failures created opportunities for a small cadre of developers with appetites for long-term plays.

Jon Hack of **Re/Max Osoyoos** said the seven inquiries he's received on the site of the troubled Indigo, a 184-unit waterfront project that debuted in 2007 with an expected completion date of 2010, have occurred this year. A couple of developers seem keen, but that's almost two years after sod was to be turned on the site. "There's still a lacking of confidence in the market," he said.

Randy Kowalchuk, developer of the Benchlands above Naramata, remains confident, and patient. Sales have slowed but the buyers coming to the sites are still seeking a home to live out their middle and senior years, he said.

"The Okanagan is still going to be a great place to enjoy those golden years," Kowalchuk said, adding: "I don't see prices going up in a hurry but I don't also see them going down very quickly. For smaller investors, this is the perfect time to get into the game. You can negotiate good terms with developers, you can negotiate good terms with construction guys, because there is access to trades. ... And if you have some capacity, you can drive a hard bargain."◆