

Peter Mitham: Real Estate Roundup

Gateway megaproject will put pressure on B.C. construction industry, insiders say

Demand driving prices up on Lower Mainland developments

Construction costs soar

With official projections of venue costs for the 2010 Winter Olympics recently jumping to \$580 million from \$470 million (a 23.4 per cent rise), and the Independent Contractors and Businesses Association positing a doubling in construction costs between 2000 and 2010, some are wondering if the number of public projects in the pipeline is increasing the pressure on private developers.

Among them is Concert Properties Ltd. president David Podmore, who recently offered gentle criticism of Victoria's ambitious construction schedule at a time when the economy is already firing on all cylinders.

"It is going to increase the difficulty for us to build, as an industry," Podmore told the Urban Development Institute in January.

Podmore added that escalating prices threaten to prevent public projects from meeting budgets.

But ICBA president Philip Hochstein said the government appears to have taken rising construction costs into account in such projects as the \$3 billion Gateway infrastructure overhaul. Hochstein noted that Gateway will enter the construction market just as many of the Olympic projects are winding down, which will mean that local labour resources will be ready to handle it.

"We should be able to train and grow our way out of [current pressures]," Hochstein said.

Construction price challenge

Completion of Olympic-related construction promises to slow construction cost increases, but in the meantime developers such as Grosvenor Canada Ltd. must grapple with the impact rising costs are having on their operations.

Grosvenor president Andrew Bibby recently told the National Association of Industrial and Office Properties that project costs for its Rise development in the 2300-block of Cambie Street in Vancouver have risen to \$62 million from an initial budget of \$45 million. Grosvenor is offsetting some of the increase by making greater use of available space and deferring the leasing of about 20,000 square feet in the project until closer to completion.

Bibby said the strategy promises to ensure lease rates better reflect construction costs but Grosvenor only has so much room to manoeuvre.

"There has been some ability to pass these costs on to tenants but it's finite," he said.

Grosvenor, in fact, will defer redeveloping an income-producing property it currently holds until construction costs stabilize.

Strata retail interest grows

Some merchants are responding to the rising cost of retail space by snapping up strata units for their shops. A recent CB Richard Ellis study reports that downtown Vancouver has less retail space per area resident than any other major Canadian city. The imbalance has increased competition for prime space on streets like Robson, where typical rents are between \$150 and \$200 a square foot.

Major retailers are also looking outside the downtown core to neighbourhoods like South Granville where new residential construction between Sixth and 16th avenues is supporting the growth of street-front retail. The Body Shop recently debuted at Granville and 14th, where Colliers broker Nhi Nguyen said lease rates have risen to as high as \$60 to \$75 a square foot today from \$45 a square foot three years ago.

"We call it the second Robson," she said.

The rising lease rates in turn have prompted some retailers to become owner-occupiers of strata units in high-profile mixed-use properties, Nguyen said, especially along the Broadway Corridor and Mount Pleasant. ¶

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