

URBAN DEVELOPMENT

Vancouver construction boom levelled by skittish lenders, high costs

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Vancouver developers say the housing-boom party is over in this region, as condo pre-sales have dropped to a sluggish trickle, lenders have become increasingly skittish about financing projects and high construction costs continue to wreak havoc.

Architects, developers, consultants and industry representatives all say there's been a massive slowdown, as many projects are facing the same kinds of pressures that the company building the Olympic athletes village is grappling with.

Others may not have the magnitude of problems facing Millennium Developments, which is having to go to its lender for a contingency reserve to cover \$65-million in cost overruns on the \$1-billion project. That's after having put in \$25-million of its own money for overruns already as it scrambles to finish the largest residential-construction project in the province by this time next year. That refinancing made headlines this week because the City of Vancouver is part of those negotiations.

But, more quietly, others in the industry are seeing projects go over budget because of construction costs, seeing pressure from lenders to put up more of their own equity and seeing some developments simply get put on the back burner by developers or lenders unwilling to plunge into the current turbulent market.



Officials speaking publicly are putting on a moderately good face, saying Vancouver is making a difficult transition from a long boom period.

"Anybody goes through a bit of pain when you move from a sellers' market to a buyers' market," said Maureen Enser of the province's Urban Development Institute, which represents most of B.C.'s major developers. "The story of that changing market has been coloured with the credit crunch."

Ms. Enser does acknowledge that developers are facing similar pressures to Millennium and finding that their lenders are wanting more from them.

"The real story is going to be the amount of equity developers will have to put into their projects - that's what going to happen."

But others paint a more drastic picture, saying that Vancouver's development industry may be going through more severe difficulties than other cities. That's because market economics became distorted in recent years by high land prices and high construction costs that were fuelled, in part, by the pressure of all the Olympics building happening at the same time.

"It's ugly out there," said one major developer, who also noted that the problem right now is that it's hard to tell if it's going to last a couple of months or several years, because so much is changing from minute to minute.

"This is an unprecedented market," said Concord Pacific CEO Terry Hui, whose company is the biggest holder of land in Vancouver's downtown.

Certainly, people in the region's huge construction-industry sector, which includes everyone from day labourers to architects and developers, are noticing the changes.

"The phones have gone silent," said architect Joost Bakker, whose firm has been involved with landmark Vancouver projects for decades.

The bigger developers are choosing to delay projects or concentrate more effort outside the province.

Mr. Hui said that the company had planned to launch a new building downtown called the Cosmo, near GM Place, in the next six months, but now they will be watching the market closely to decide what to do.

Another major developer, Ian Gillespie of Westbank Projects, said that he had originally planned to go through with three projects next year and he's now scaling that down to one.

But there is a flow of rumours in the city about smaller developers who have been turned down for financing even when they had a high level of presales, because lenders are concerned about buyers backing out or costs rising. Some can't even get a decent level of presales.

Presales, which developers have relied on to persuade banks to lend them money, had been slowing down in previous months and almost came to a stop in the past couple of weeks. Projects that a year ago would have had people lining up around the block to buy have seen only a handful of sales on their opening days.

This has potential consequences for Millennium, which has sold only 60 per cent of its first phase and has yet to put its second phase of higher-priced units on the market.

Jennifer Podmore, whose company MPC Intelligence tracks residential construction, said there's been a 45-per-cent drop in high-rise condo sales in the past year. Over all, there's been a 31-per-cent drop in all forms of new housing sales.

Ms. Podmore said that is a sign of the departure of the speculative investor from the Vancouver market, which she said is ultimately a good thing for Vancouver.

But the disappearance of the flocks of speculators, along with the current financial market mess and the general housing slowdown, are forcing lending institutions to look more carefully at who they are giving loans to.

VanCity Credit Union CEO Tamara Vrooman said speculator investment is something her institution decided a year ago was a cause for concern, along with the early signs of credit tightening and problems in the housing market.

"We took action late in '07 to make sure we weren't taking on more than we could handle. We needed to remain viable."

The credit union, which has about \$1-billion lent out in its construction portfolio, decided at that point that it would raise its requirements for presale levels, make higher demands on security for projects and monitor them more carefully.

"We did act before others did, so we have the liquidity that we need now," Ms. Vrooman said.

What VanCity did a year ago is what is starting to happen everywhere now.

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