

THE LAND DIGEST

Foreign Buyers Affecting the Vancouver Market

Economic Indicators:

Real GDP Growth	
Q2 2015	-0.5%
Toronto Employment Growth	
Jul 2015	4.2%
Toronto Unemployment Rate	
JUL 2015	6.6%
Inflation	
Jul 2015	1.3%
Bank of Canada Overnight Rate	
Aug 2015	0.5%
Prime Rate	
Aug 2015	2.7%
5 Year Mortgage Rate Fixed	
Aug 2015	4.6%

Wealthy buyers who are treating the Lower Mainland real estate market like one giant casino are proving to be a major obstacle for local developers trying to fulfill the city's goal of providing more housing at an affordable price.

First-time buyers aren't the only ones feeling the squeeze from the investor market. Marcon Developments Ltd. has been building housing for 30 years and the company's development manager says speculators backed by foreign money are making it increasingly difficult to develop market housing that is relatively affordable.

They're reducing the supply and driving prices by sitting on chunks of properties with no immediate intention to develop. As we've seen lately, these wealthy speculators buy up houses as land assemblies. They then sell to a developer for top dollar. And that cost is getting passed on to the consumer.

"Foreign developer groups are getting especially aggressive on land purchase prices," Nic Paolella, development manager for Marcon, said. "They are pushing prices to a place where developers are not able to make the project economically viable. If we are

talking about creating more housing supply, at a more affordable threshold, there is less of it to do that on.

"In the last 18 months, the market has seen a lot of Chinese money coming in, with a first-time developer setting up shop and basically willing to pay a lot more than what other groups are finding realistic, because some of these so-called developers are doing it just to park capital. Very little of this land that's bought comes to fruition as a development. They are purchasing for reasons other than making [housing that is as] affordable as possible.

"They are just holding land. We are thinking of capital growth – they are thinking of capital preservation. That can be seen all over Vancouver."

In Marpole, Marcon is launching presales for Park & Metro, which is a 73-unit, low-rise, two-building complex designed to merge sensitively with the single-family housing that surrounds it. The complex contains many two- and three-bedroom units that are in huge demand since families who can't afford detached housing are now looking to condo units. Mr. Paolella says that, because of the city's plan to densify the area, there's plenty more opportunity in Marpole, but a big challenge is competing with the new

developers. As well, there's a limited supply of land.

"I think it's very fair to say that around Marpole and the Cambie Corridor the holding of land is constraining our supply of housing."

This isn't a new trend for developers, but it is getting more difficult because speculators are more sophisticated. Hani Lammam, executive vice-president for big developer Cressey Development, says the new investor is often well versed in city plans, so they know about any possible upzoning – which is akin to mining for gold.

"It's happening everywhere," Mr. Lammam, who's dealt with speculators his entire career, says. "The development hot spots are pretty obvious – everybody knows where the next wave of development is going to happen because the access to information is so easy."

As a result, these speculators are getting better at it. So they are being more aggressive and buying the land first.

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Foreign Buyers

“Cambie Corridor is a perfect example. The prices there are astronomical. To think, these are single-family homes – teardowns – selling for \$4- or \$5-million, is absurd. If you look back five years, those owners would have had a hard time getting over \$1-million.

“What people don’t appreciate is that the majority of developers buy property to develop right away. We don’t speculate on property. We only buy if we know what the development potential is. The land speculators are long-term holders of undeveloped land. We just don’t have enough capital to park money somewhere.”

A more recent example is the Burritt Bros. property at the corner of Main Street and E. 20th Avenue, which includes Bean Around the World coffee shop. Central and already zoned for residential mixed use, it was a hugely attractive site for any residential developer. Everybody wanted it. But the site was reportedly sold to a young offshore buyer who drove the bidding to a record price for that area, upwards of \$11-million. Mr. Lamman, who was bidding on the property along with several other local developers, says the buyer paid way too much, but he could probably afford it. He says a lot of the new wave of buyers are people with more money than experience. Many of them don’t even know that they’ll have to pay community amenity contributions to

the city on top of the price. Those contributions, for a community centre, parkland, or whatever the neighbourhood needs, can add up. If they discover the numbers won’t make sense, that’s when they sit on the property until prices go up.

“In this case, there was a group of people who understood the market, and then there was this outlier. Absolutely he paid too much.

“It’s not because he’s smarter, it’s because the less information you have, the more aggressive you can be. That site is not simple. It’s going to be a lengthy process.” The Vancouver real estate market is strong, but not a sure thing. The land gamblers have sometimes lost. Rezoning around Cambie hasn’t been as extensive as initially expected, Mr. Paoletta says.

“There are people that got burnt for sure. That’s happening now.” And Main Street is still a tricky market, Mr. Lamman says.

“If it was easy money we would be doing it,” he says. “The gamble is that the market doesn’t go up. Or, you can’t rezone the property, or the demand is not going to move east as quickly as we think it is. Main Street is the perfect example. I know I can sell Cambie Street right now for \$800 or \$900 a square foot, but Main Street is a millennial demographic. They don’t have any money.”

It’s not only offshore speculators driving prices. Developer Daniel Boffo had to pay top dollar to a

local man in North Vancouver who’d assembled land around the hugely desirable Edgemont neighbourhood.

“In that scenario, it was a local real estate guy that was able to make a buck by doing that. He knew the plan and where it was going to go. He was creative in putting together an assembly that would be desirable for a developer to pick up. It’s low risk,” Mr. Boffo says.

He had also bid on the Burritt Bros. property on Main Street.

“There’s a lot more money coming from overseas. And I think why they like land is it allows them to place a large amount of funds in one spot. It makes it simpler from their end, where they are looking to relocate some of their capital. Unfortunately, it makes it hard for us.

Boffo Properties supplies both market and non-market housing. Mr. Boffo believes that the rash of speculation is a byproduct of the city’s growth, and a challenge for city hall as well.

“It’s a big topic, a big can of worms. That’s [the city’s] biggest challenge, in trying to grow communities responsibly and sustainably. There’s a lot of change that’s happened and that will continue to happen.”

Source
Kerry Gold
Special to The Globe and Mail

RECENT SALES – Metro Toronto

Address/City	Acres	Price	Notes
202-212 Keewatin Ave.	0.75	\$8.28MM	Future high rise condo site
8-16 Widmer St.	0.21	\$12.7MM	Future high rise condo site
874 Yonge St.	0.14	\$13.0MM	Holding site future development
529 Oakwood Ave.	0.51	\$2.7MM	Beer store future development
7 Staffoedshire Pl.	2.54	\$3.75MM	Employment lands

Source: CFAS and RealTrack

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About The Land Development Group

CFR has quality agents and advisors who have been involved extensively in the purchase and sale of development lands.

Not only can we assist in the purchase and sale function, but CFR has the contacts and expertise to participate the whole development process. We have affiliations with planners, architects and other consultants which can assist our clients.

The key members of the Land Development Group are well tied into the development community.

In many cases they have acted on their behalf in consulting situations. This allows the team great access to leading edge information regarding future growth areas, highest and best use, and new paradigms in development densities.

The Land Development Group started in 2012 and to date has sold over \$80 million worth product.

With an in house planner and accredited appraiser as part of the team, the Group can offer to its clients services like no other Brokerage. These professionals are quick to assess the potential development of property and its hidden values.

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