

REGIONAL ROUNDUP Unlike housing, commercial real estate a bargain price in a global context

Viva Vancouver

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Vancouver is the second-least-affordable city on the planet in which to buy a home says an annual survey of 337 global housing markets. Yet its commercial real estate remains moderately priced when compared on the same scale.

The housing study, by U.S.-based **Demographia**, looked at housing costs and incomes in world cities based on what the consultancy calls the "median multiple" – the number of times house prices are larger than average salaries.

The study called Vancouver's housing market "grossly overvalued" and estimated the typical house is worth about 10 times the average annual income. (Across Canada the average was 4.7 times salary). Vancouver ranked behind only Hong Kong and just ahead of Sydney at the top of the not-affordable-here list.

On the West Side of Vancouver, the benchmark price for a detached house in January was \$1.99 million, reports the **Real Estate Board of Greater Vancouver**, noting this price is down 7.5 per cent from a year earlier. In less toney East Vancouver the typical detached house sells for \$819,000.

The median family income in Vancouver is \$67,550, according to **Statistics Canada**, which would mean a West Side house would actually be priced about 30 times higher than the average income if the Demographia index is used.

High housing prices in Vancouver skew all real estate values: residential properties, for instance, are worth six times that of all the commercial and industrial real estate in the city. Combined.

According to **BC Assessments**, Vancouver residential real estate was valued at \$186 billion in 2012, or almost 74 per cent of the total assessment roll. All business properties were a far-distant second at \$50 billion, followed by recreational and non-profit land, at \$10.8 billion, and utilities, worth \$1.8 billion.

Rising residential values have proved a boon to both investors and city coffers.

Through what is perhaps euphemistically called a "voluntary" program, Vancouver collected \$180 million last year just through its Community Amenity Contribution (CAC) program on new residential projects. The CACs are part of the rezoning process: basically the city figures what value the rezoning will add to the property and takes a cut of that – as high as 70 per cent – from the developer.

It is widely understood that if the voluntary donation – in either cash or in kind – is not made, the rezoning application is not likely to proceed.

Developers also complain that the donations are often done on a case-by-case basis, making it difficult to ascertain how much will have to be paid when planning for a new project.

Brian Jackson, Vancouver's general manager of planning and development, told a developers' meeting last year that the city is working toward making CACs more predictable, it not any less profitable.



Liveable Vancouver: said to be among the world's most expensive for housing, yet commercial real estate prices are low compared with other world-class cities.

Lease bargains

Yet, when it comes to commercial real estate – which has no CACs on new development – it could be argued that Vancouver is one of the cheapest world cities on earth.

For example, the most expensive retail lease rates in Vancouver are found on trendy Robson Street, where the highest rent paid for a storefront last year was approximately \$220 per square foot. In most areas of the city retail lease rates are in the \$30 to \$40 per square foot range, based on annual lease rates.

But in Hong Kong's Causeway Bay the average rent for a retail space is \$2,630 per square foot. On New York City's Fifth Avenue it is \$2,500 per square foot and Tokyo landlords demand an average of \$1,057 per square foot for space in the trendy Ginza district. In fact, on a world scale of office rents compiled by **Cushman & Wakefield**, you have to get down to places like Ho Chi Minh City and Beirut to find retail space as cheap

as in Vancouver.

The story is the same in the office sector. In Vancouver office rents for even Class AA buildings rarely top \$40 per square foot and the average office rents across the city are in the sub-\$25 per square foot range. In Hong Kong, as a comparison, the average office space rents for \$185 per square foot. It is \$106 per square foot, on average, in Paris, \$85.50 in London and \$75.50 per square foot in New York City. Even Calgary, with premier office rents averaging more than \$54 per square foot, is more expensive than Vancouver's downtown.

Blue chip demand

This may explain why top commercial analysts are gung-ho in their Vancouver real estate forecasts.

In its annual Blue Chip Building Index, which tracks office leasing in downtown

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