Terrace draws Asian investor by avoiding sticker shock

COVER | Housing seen as affordable, but industrial and commercial land prices and taxes higher in some northern centres than in the Lower Mainland

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Northern British Columbia housing is much more affordable than in the Lower Mainland, but the northern price advantage largely vanishes in the commercial and industrial real estate sector. The notable exception is Terrace, where a China-based company has just bought 1,000 acres of industrial land at $11,000 per acre.

However, in many centres from Kitimat to Prince George, industrial land often lists at $1 million per acre or more, comparable to Vancouver and about twice the price as in the Fraser Valley. Northern property taxes also present sticker shock: Kitimat industrial property taxes are more than three times higher than in Vancouver. In Fort St. John, property taxes on retail property are 40 per cent above those in Richmond and Surrey.

An **Altus Group** survey found that a $5 million light industrial property in Kitimat would carry an annual property tax of more than $283,000, and in Fort St. John it would be $191,000. A similar property in the city of Vancouver would be taxed at $84,231, and it would be $71,282 in Surrey, considered the fastest-growing city in B.C.

Northern real estate agents point to the lack of industrial and commercial land for the soaring prices. In Kitimat, framed by mountains and the ocean, most of the industrial land is already owned by **Rio Tinto Alcan** and there are no big industrial sites with land for development. Fort St. John is hemmed in by the Agricultural Land Reserve and has a shortage of serviced commercial and industrial sites.

In Fort St. John, considered in the heart of B.C.'s northern liquefied natural gas (LNG) bonanza, commercial land values have doubled since 2012.

Two years ago, commercial land in Fort St. John was selling for $12 to $15 per square foot, noted **Ron Rodgers**, owner-broker of **Northeast BC. Realty Ltd**. "The current asking prices for commercial property appear to now be in the $25-per-square-foot to $29-per-square foot range," Rodgers said.

At this price, an acre of land would be more than $1 million.

In Kitimat, where **Re/Max Kitimat** has one of the few industrial properties listed at $2.19 million for .87 acres, the city is moving to soften the property tax hit.

A year ago, Kitimat council passed a bylaw providing tax exemption for developers of industrial and commercial properties. Offices, retail stores, warehouses, hotels and motels are all eligible. The Commercial Zone Revitalization Tax Exemption Program encourages new construction and renovations by offering a five-year tax exemption on the increase in assessed value, to a maximum of $2 million.

Former Vancouverites Crystal Patten and Scott McWalter with their Prince George house: mortgage payments are half of what they were paying for rent in Vancouver's Kitsilano neighbourhood. | BRENT BRAATEN/ PRINCE GEORGE CITIZEN

> *Kitimat industrial property taxes are three times higher than in Vancouver – and land prices are nearly the same*

So far, no developers have taken up the incentive, and construction has plummeted.

In the first six months of this year, Kitimat issued $27 million in building permits, down from $57.2 million in the same priod a year earlier. Permits for industrial buildings plunged from $56.7 million to $4.2 million and commercial permits dropped from $147 million to just $9 million in the first six months of 2014.

A popular alternative destination for industrial investors is Terrace, the northwest service and retail centre a half-hour drive east of Kitimat. There, the city has opened the 2,400-acre "shovel-ready" Skeena Industrial Development Park. One-acre, unserviced lots start at $10,000.

In July, **Taisheng International Investment Services**, a Burnaby-based investment firm, paid$11.8 million to the city for 1,056 acres of the Skeena industrial park, wich is located just south of the **Northwest Regional Airport**.

Taisheng is the investment arm of the China-based **Qinhuangdao Economic Development Zone** located on the east coast of China, two hours from Beijing. Taisheng is planning to complete a farmcrop factory employing 170 workers at the Skeena site by 2017.

Affordable homes

Meanwhile, northern housing is seen as a prime investment with lower prices and potentially higher returns than in the Lower Mainland.

This May, **Heidi De Wildt**, 26, and her 27-year-old husband, **Richard**, decamped from Metro

Vancouver, selling their townhome and moving to Prince Rupert on B.C.'s northwest coast.

The newlyweds have relatives in Prince Rupert,but the moving motivation was strictly financial.

"It is a lot cheaper to live in Prince Rupert than in Vancouver," De Wildt said, adding that they want to raise a family and her husband plans to eventually attend **Northwest Community College** in nearby Terrace. "Richard [who works in waste management] makes good money and I work, but it's hard to get ahead, to save any money, in Vancouver," she said.

The DeWildts sold their Port Coquitlam townhouse for $368,000. They immediately purchased a two-storey, four-bedroom house in Prince Rupert for $325,000 – and both have landed jobs in the community.

Scott McWalter, 29, and his fiancé, **Cyrstal Patten**, 30, have also joined what could become a milenniums' exodus from Vancouver, which was recently ranked in a **Demographia** survey as having the second-most-expensive housing in the world.

The pair bought a five-year old, four-bedroom detached house in an upscale Prince George neighbourhood after moving from Vancouver this year. "The mortgage payments are half of what we were paying for rent in Kitsilano," said McWalter, who recently received his MBA from the **University of Northern British Columbia** in Prince George. He added, "We could have bought good houses, nice houses here that would have worked out to $600 to $700 per month in mortgage payments."

The $400,000 house they settled on is the type of two-storey, mid-level executive that would cost at least $1.3 million in Vancouver and perhaps twice that in Kitsilano, according to June statistics from the **Real Estate Board of Greater Vancouver**.

Across the north, the average detached house price is $257,000,

Real estate investor Jason Pender of Joint Venture Real Estate: "This is not a boom. It is just the beginning." | JOINT VENTURE REAL ESTATE

yet median family incomes in many northern communities are higher than in the Lower Mainland.

A housing affordability index – linking incomes to home prices – generated by the **Northern Real Estate Board** (NREB) shows that a typical northern B.C. house purchase would require 31.9 per cent of household income, compared to 81.6 per cent in Vancouver and 67.7 per cent provincewide.

"We are seeing a lot of young homebuyers coming north", said NREB president **Ken Laursen** in Prince George, the self-styled northern capital and B.C.'s fifth-largest city outside of the Lower Mainland.

Prince George has an unemployment rate of less than 5 per cent – second lowest in the province – and an average house price of around $270,000, Laursen said.

The median family income in Prince George is $76,545, compared to $66,300 in Metro Vancouver, based on the 2011 National Household Survey. The gap is thought to be even wider now, due to the increase in high-paying jobs in the north's LNG industry.

"People come up here and buy a house and in a couple of years they are buying recreational property, because it is so affordable to live here," Laursen said.

Speaking just days after the federal government approved the $6.5 billion Northern Gateway Pipeline, Laursen said, "there is a buzz in town. A lot of confidence in the economy."

As the largest city in the north, Prince George is the go-to centre for the services linked to the already booming LNG sector, he said. "We are seeing a lot of professionals, like engineers, being transferred into Prince George."

The veteran realtor said that many people who came to Prince George during the last boom in the 1980s planned to stay two years or so. "But they are still here. Prince George is B.C.'s great secret. Once you move in you don't want to leave."

Investors

Like the De Wildts in Prince Rupert, many new northern home buyers have bought a house with a rental suite to generate extra income. It appears a smart strategy in a region with some of the lowest vacancy rates and highest rents in the province.

In Dawson Creek and Fort St. John – near the largest LNG fields – an average two-bedroom apartment rents for around $1,100,second only to Vancouver, according to the spring survey by **Canada Mortgage and Housing Corp**. In Terrace, Prince Rupert and Kitimat in the northeast, vacancy rates are below 1 per cent.

The rental shortage is deepened due to gun-shy local builders afraid of speculation in what has traditionally been a boom-bust economy, suggested Vancouver-based investor **Jason Pender**.

There were only 76 homes listed for sale in Kitimat as we went to press.

Pender's firm **Joint Venture Real Estate** is completing the first multi-family project built in 20 years in Kitimat. The project sold out its 36 townhomes in 40 days. All but four of the units sold to out-of-town investors.

"You can make significant double-digit cash flows here," Pender said. The two-bedroom suites sold for $300,000 to $325,000, and Pender said they would rent from $2,500 to $3,000 per month when they complete this year.

The white-hot demand is an indication of the economy in Kitimat, which is a western terminus for LNG shipments and the planned Northern Gateway pipeline. The ongoing $3.3 billion expansion of the Rio Tinto Alcan aluminum plant is a major employer.

"The rental vacancy rate in Kitimat is zero," Pender said.

The most dramatic evidence of the housing shortage is floating at the Kitimat wharf.

Rio Tinto, which already has a 1,700-person work camp at Kitimat, leased a 170-metre Baltic cruise ship and had it converted to house 500 more construction workers. Rio Tinto is paying $175 per day, per bed, for the accommodations.

Pender is planning a larger, 120- to 150-unit residential subdivision in Kitimat and has started a second condominium project in Terrace. He expects competitors to come into the market, but he is not worried.

"This is like Fort Mac 25 years ago," Pender said, referring to the Alberta oil-fired city of Fort McMurray. "This is not a boom. It is just a beginning."

Commitments needed

There is still caution among smaller investors, Rodgers added. After all, no LNG plants have actually been built and **BC Hydro**'s proposed $8 billion Site C dam project, just outside of Fort St. John, will be facing public hearings for months, perhaps years. "Until full commitments are made for these projects and actual contracts are signed, not a lot of commercial real estate sales will be completed. While there is a good demand for retail and offices, the highest demand in this area will always be for industrial space for the many businesses that service and develop the oil and gas reserves in this area."

Industrial investors will also be trying to avoid sticker-shock prices. ■

Housing affordability, by the numbers

$257,000: Average northern B.C. house price
$966,000: Average Metro Vancouver house price
$72,000: Median household income, Prince George
$66,300: Median household income, Metro Vancouver
31.9 per cent: Per cent of income needed to buy a house in the north
81.6 per cent: Per cent of income needed to buy a house in Vancouver