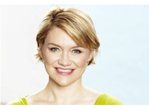
OPINION

Investors flock to Vancouver property market



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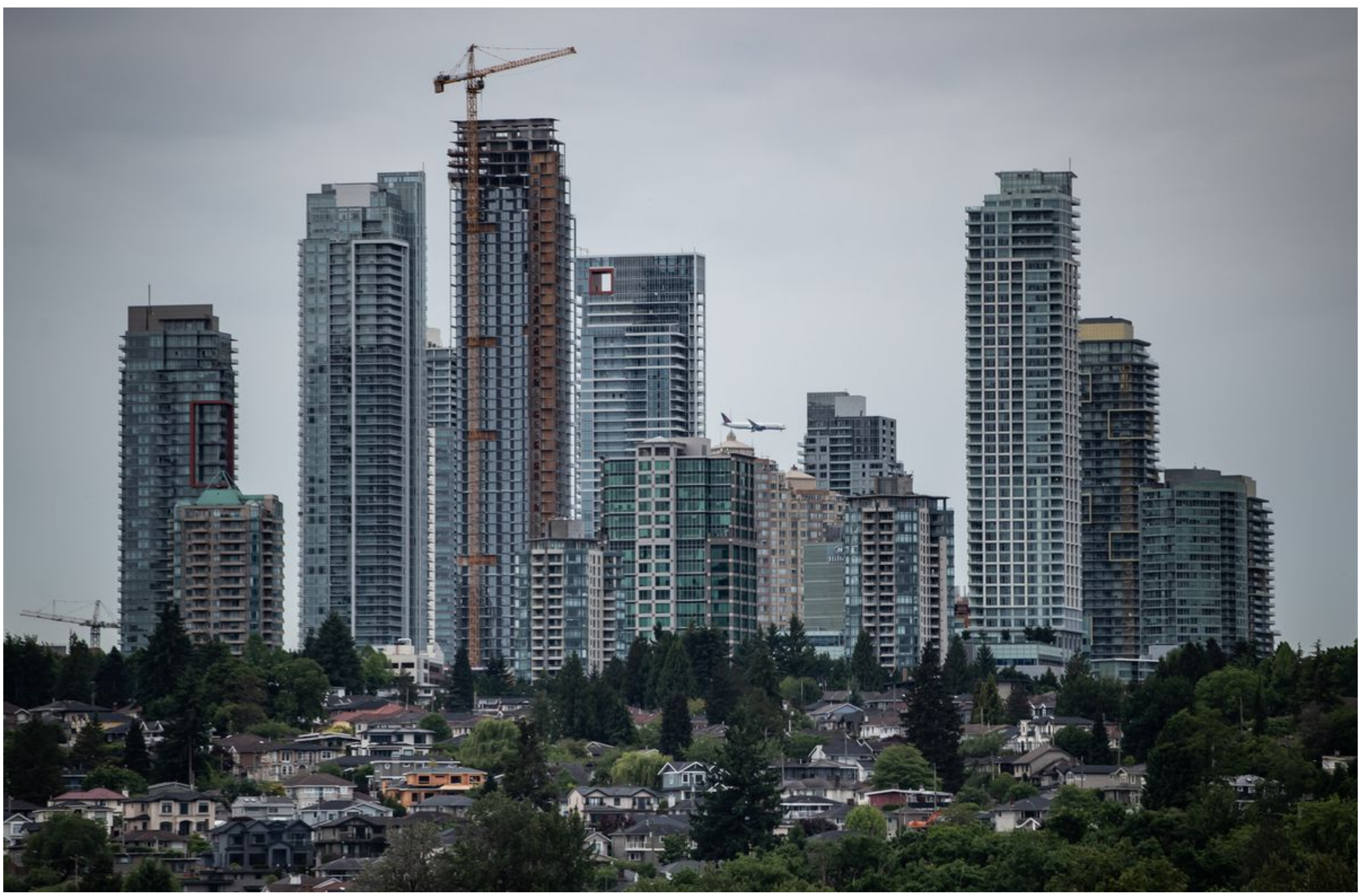

The Vancouver Real Estate Forum, to be held this year on April 12, includes a panel discussion on the growing trend of institutional investors partnering with local developers.

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What came first, investor demand or a lack of supply? For many, the question of Vancouver's affordability crisis is a lot like the old chicken-or-egg riddle. There are those who fiercely believe that local governments and homeowners have impeded the progress of new construction over the years, constraining supply and driving up prices. And then there are those who believe that a lot of the new housing that's brought online targets investors who seek to maximize profit, turning housing into a game of real-life monopoly.

In the past few years, big money investors, also known as institutional investors, have moved into the Lower Mainland to take direct advantage of one of the world's most lucrative real estate markets. The Vancouver Real Estate Forum, to be held this year on April 12 at the Vancouver Convention Centre, includes a panel discussion on the growing trend of institutional investors partnering with local developers. And experts from investment firms will talk on other panels that cover everything from government policies and the demand for rental housing to the affordability crisis.

"They are aligning with local developer talent that are good at sourcing opportunities and properties – the pension funds are happy to participate directly with guys like us," said Brent Sawchyn, principal and chief executive officer of development company PC Urban Properties, and a Forum panelist. Mr. Sawchyn's mid-size company has partnered with several such companies on projects in recent years.

He estimates that, globally, there are about a dozen markets for pension fund types to inject their money and Vancouver is a draw. They are looking for markets where population and business opportunities are on the rise. For developers, such investor partnerships have become more appealing because of the high cost involved in development.

"If you've got $10-billion of money that you want to put into real estate in certain markets in Canada – let's say multifamily apartment buildings – you need to cast your net pretty broadly to be able to fill that need, to place that amount of money," Mr. Sawchyn said.

“The pension funds and ‘near pension funds’ are all interested in participating in real estate so that they can, at the end of the day, attract an ongoing return for their investment – so they can go buy existing apartment buildings or they can participate with us, where we can build a brand new apartment building that is smack clean out-of-the-box brand new, with a lot less requirements for repairs and maintenance and then generate an attractive return for them.”

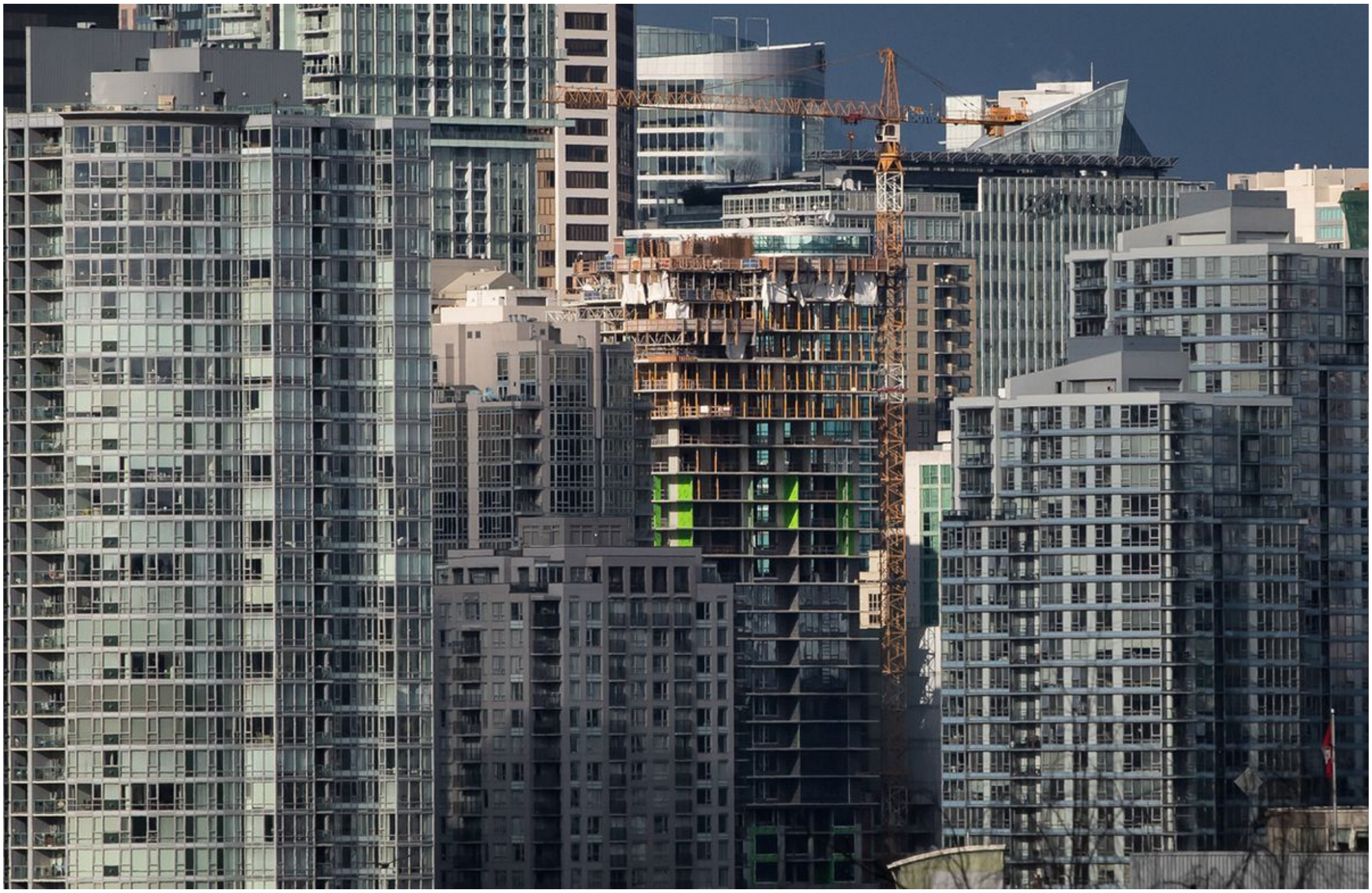
Burnaby, B.C., is eager to build, but stymied by funding gap

Supply increasing in Squamish, B.C., but home prices are, too

Some housing advocates have accused the institutional investor of pushing prices higher because they snap up old apartment stock and seek healthy returns. Mr. Sawchyn and others argue that they are serving the opposite purpose, because rental apartments would be otherwise too risky to build. For big money investors, however, apartment buildings “are very well sought after and prized,” he says.

“Without institutional investment into, say, new apartment buildings, we wouldn’t be delivering any stock.

“Some argue, ‘this is a new building, rents are expensive, it’s not affordable.’ But if we’ve got 75,000 to 100,000 people moving here a year to the Lower Mainland, we need to build housing. And without pension funds participating in housing, we are not going to have any more stock. Rents will keep going up.”



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But it’s also true that the big investor is in the Vancouver market expressly because growth is the expectation. Some argue that anything that gets in the way, such as government regulation that restricts rents, or building heights, or costly development fees, or public engagement that stalls projects for years, for example, impedes the delivery of supply. For some, less regulation of the housing system is the most effective way of meeting the future demand.

Simon Fraser University professor of finance, Andrey Pavlov, argues that institutional investors are generally better landlords than mom-and-pop landlords, and regulations and taxes designed to cool the market only add to their financial burden, making housing less affordable. We shouldn’t be just building for the current population – we should be building to house future populations, says Mr. Pavlov.

“We have constrained population growth in the Lower Mainland because of limits on housing," he says. "There is that additional complication that maybe you have investment demand that has nothing to do really with current population growth. In my view, we should provide enough housing even for that, and it can be done, but there is a more difficult argument to be made there. However, in the rental market it is very, very clear."

The residential rental vacancy rate, he says, should get to at least 3 per cent to adequately supply the population.

Patrick Condon, University of B.C. urban design professor and author of *Sick City: Disease, Race, Inequality and Urban Land*, argues that the housing crisis stems from the commodification of land, which is no longer based on its value for housing, but for its value as a global asset class. In order to solve the housing problem, he says, you have to control the price of urban land.

"Housing is no longer valued for its utility. It is now valued as a commodity, just like gold, Bitcoin or stocks and bonds," he said in an e-mail. "We have moved from an economy based largely on wages to one based largely on investments, with investors now in the driver's seat. It's extra complicated, because most of us participate in it and benefit from it, with our RRSPs and our pension fund contributions, not to mention the baby boomers benefitting from a passive gain of $4-million for their Dunbar home."

Developer David Fullbrook says that he's not sure that a glut of new supply will bring prices down.

"I look at the paradigm and it has got too many opposing forces."

There are a lot of constraints on available land, and land cost is high. He says it means that only a few major players with deep pockets can afford to play.

"By and large, it's more the commodification of housing that is fundamentally a problem, that we just haven't identified as being a real thing. We haven't allowed that to happen for health care and we have allowed it to happen for housing – and now that die has been cast it's going to be very hard to unwind that, I would guess," he said.

Mr. Fullbrook, who has been in the industry for 30 years and spent most of his career in the U.S., partners with investors and builds mostly commercial developments in B.C. and Alberta, including some multifamily residential.

"When the dot.com collapsed in 2000, that sort of released a lot of capital and that money began to flow into commercial real estate. I'm talking globally. … When that money started to flow, it never stopped and it began to accelerate. So what you've got now … is really institutional capital that is driving predominantly home development.

"I think the big collapse was obviously the Liberal government's lack of attention to housing and the value that was created for them politically by this Chinese inflow of capital, this foreign investment money that really protected Vancouver from some of the cyclical swings that were happening throughout North America.

"I always look at Vancouver investors as being rewarded for speculation. They buy property and they may over pay. They don't really know what a downturn looks like. So there has always been money to be made, and the province is constantly trying to manipulate the system to drive or incentivize capital to behave in a certain way – and we are just too late.

"Since Expo, there has been 30 years of unprecedented demand for B.C. real estate and it doesn't seem to be impacted by typical market swings that would make people a little more cautious, particularly the speculative venturers who don't really add a lot of value to the process, in my own view."

Mr. Fullbrook finds the increasing rents worrisome and is concerned about his own children's futures. He said he just priced a 128-unit, 20-storey concrete tower at $650 buildable per foot, not including land, profit and interest to cover the financing. The means the consumer is looking at about $500,000 for a 500-square-foot condo. That's about 10 times the average salary, compared to when he was starting out and a home might be three times the average salary. That creates a "vicious circle of haves and have-nots," Mr. Fullbrook says.

And investors are, by necessity, driven by profit.

“We had a deal we were quite interested in, and there was an investor group that was interested in the project, and putting capital in, and what they wanted us to do was something that I just would not do. I would not undermine a community that was thriving, and in a good place, to make a quicker yield.

“That was really what they were driven by: ‘we want to make that money in three years and get it out and then get it back in.’

“I don’t judge it,” he adds. “I just recognize it as being a factor of the market, that there is an avaricious quality to investors.”