

**COVER** Apparently recession-proof Capital Region continues speculative construction as population swells

# Victoria developers eye the long-term

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**T**he threat of hard times isn't dampening the prospects for commercial development in Victoria, where a shortage of space is keeping Vancouver Island's real estate markets hopping.

While building permit values in the Vancouver Island-Coast development region are coming off the high of \$1.8 billion achieved in 2007, developers such as **Les Bjola of Turner Lane Development Corp.** are gearing up for the future with plans for major new developments to serve a region where the population is expected to surpass 400,000 by 2020.

The Capital Region population topped 330,000 in the 2006 federal census, a 5.8 per cent increase from 2001, with most growth seen in the western communities of Colwood, Highlands, Langford, Metchosin and View Royal.

But much of the commercial infrastructure providing employment opportunities and services to area residents hasn't kept pace. Victoria may need upwards of \$20 million a year to support municipal infrastructure, but many commercial properties are also in need of facelifts and expansion to remain viable as the region's population increases.

"There is a lot of old C-class retail that's either getting knocked over or getting rebuilt. But if you look around, there's really not a whole lot of stuff available," Bjola said.

While some developers are transforming traditional malls into so-called lifestyle retail centres – Toronto-based **Morguard Investments Ltd.**'s makeover of the Town & Country Shopping Centre in the Victoria suburb of Saanich is a case in point – others are creating new urban communities.

Dockside Green opposite downtown Victoria, and the Bear Mountain development were the first wave of an ambitious run of projects that now includes South Skirt Mountain, a 2,800-unit development on more than 200 acres in Langford, and Turner Lane's own



Photo: Benjamin Moore

**Les Bjola of Turner Lane Development Corp.: building 4.3 million square feet of mixed residential and retail in the heart of Colwood. "It's an ideal place to start a project."**

Colwood Corners project in Colwood.

## \$1.5B project

Rather than renovating the existing Colwood Plaza complex into a destination retail centre, Turner Lane partnered with Victoria-based **League Assets Corp.** to acquire the property in early 2007 with plans to redevelop and add density to the 14.1-acre site. The \$1.5 billion project will see the four single-storey buildings currently on site replaced with 11 buildings over the next 15 to 20 years. A total of 4.3 million square feet will be available when the project completes, split almost evenly between residential and commercial.

The commercial space will include 1.4 million square feet of retail area that will augment what the site currently offers. While a recent review of Canada's property markets suggests a glut of retail space will be coming on the market in 2009, Bjola believes demand exists for new space in Greater Victoria.

"We're a captive market, we've got a very controlled amount of land that's available," he said. "[Victoria] is its own economy, its own microcosm. It doesn't get affected the same way as the big power centres do down in the States, yet we're being compared to those."

A long-term outlook also helps.

Bjola factored in three downturns when he drafted plans for the Colwood investment, forecasting build-out over a period as brief as 15 years and as long as 25 years. While he didn't anticipate the depth of the current downturn, he expects it to be over by the time construction starts – at this point, a date that's three years away.

"The downturn, as dramatic as it is, certainly

isn't affecting our planning process," he said. "We are starting with it at our front-end, so it's a great place to start. It's an ideal place to start a project."

Bjola isn't the only one who feels that way. While there's been a slowdown in land sales, **Alessandro Roethel**, a market analyst in the Victoria office of **Colliers International**, said construction continues to add space to local markets.

### Mall makeover

The first two phases of Morguard's makeover of the Town and Country mall will add 400,000 square feet of retail and 200,000 square feet of office space to the market, while **20 Vic Management Inc.** of Toronto recently announced plans for a \$60 million renovation and expansion of Victoria's Hillside Centre. Approximately 80,000 square feet will be added to the existing 428,000 square feet at the mall, originally developed in 1962.

"We all assumed it wasn't going ahead just because one would think you'd tend to see companies being more cautious, especially the companies from back east," Roethel said. "It shows that, here in Victoria at least, things are still looking pretty good."

The danger of a downturn didn't stop city councillors in Langford from moving to waive building permit fees on new residential projects and grant a 10-year tax holiday on new government office space in a bid to spur development. The municipality also slashed the time developers must wait for building permits to a

mere 48 hours from time of application.

Roethel doesn't think the move will create a stampede to Langford, but he thinks it might get other Capital Regional District municipalities such as Victoria and Saanich thinking about the fees they charge developers.

"It's great for them to do that because maybe it will push the city to do something different," he said.

### Office space

The office space situation downtown is, after all, tighter than in the suburbs, with office vacancies ending 2008 near historical lows. Vacancies downtown sat at 2 per cent, a 13-year low, and 2.5 per cent across the region. The year ahead doesn't promise much relief. Total net absorption in 2008 was 20,500 square feet, while about 53,000 square feet being completed in 2009 has been preleased. Victoria has approximately 345,300 square feet of new office construction on the go, but the next major space won't be available until 2010.

"We saw little evidence that the much publicized economic downturn had a significant effect on the Victoria office market [in 2008]," Colliers remarked in its year-end review of the local office market. "Given the lack of new supply and the pentup demand, we expect the vacancy rate will remain in the 2 per cent range during 2009."

On the other hand, the developers of Bear Mountain have been quietly building 40,000 square feet to 50,000 square feet of office space at the resort, which promises to be a significant addition to the area.

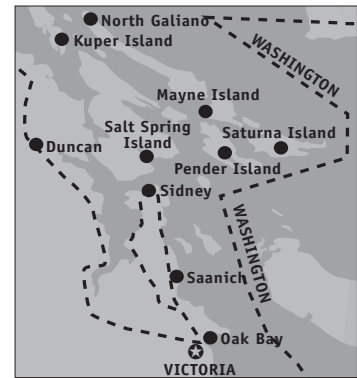
"Apparently the space isn't being leased on the market," Roethel said, noting that the building would be a significant addition to an area traditionally dominated by owner-users. "If you just built spec out there, it's tough to say, because it hasn't really been done yet," he said.

Given the growth in population and the death of space region-wide, the time may be ripe for the addition of high-quality office space in the suburbs.

Certainly, demand is high, as evidenced by the rapid uptake of sublease space vacated by companies that have reduced their requirements in the market.

**Linens 'N Things** vacated 32,000 square

## Quick facts



### Victoria, BC

- Population** 330,000 (Capital Region)
- Average house price** \$542,000
- Apartment vacancy rate** 0.5 per cent
- Office vacancy rate** 2 per cent
- Major employers** Government, retail, tourism

feet at Tillicum Mall in Victoria, but the space never reached market; it was promptly snapped up by an associated company. Similarly, there was strong interest in locations formerly occupied by **A&B Sound**.

On the industrial side, **Carmanah Technologies Corp.** gave back 25,000 square feet of space when it contracted with a Calgary company for manufacturing, but Colliers cut a sublease deal "in a matter of weeks" with Ottawa-based submarine maintenance firm **CSMG Inc.**

"It's interesting to see that even though some of the space is coming up, that there's just so much pent-up demand for space in the various categories and sectors that it is being backfilled quite quickly," Roethel said.

### Housing

The average price of a detached house in Victoria is now \$542,000, with condominiums selling for an average of \$250,000, both prices down slightly from a year ago. A month-over-month sales increase bodes well for the year, though, according to the **Victoria Real Estate Board**. With a 0.5 per cent rental vacancy rate, among the lowest in Canada, the Capital Region is considered among the top residential investment markets in the province. ♦

