

Western INVESTOR

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27 CAPITAL CHALLENGES

Victoria office space hits zero vacancies

Condo developer David Chard mixes retail and live-work space in new towers to ease crunch



9 HOTEL WAVE SPURS SALES

Landmark Vancouver properties on the block as LA builder checks in

19 EBAY OPTION TO STOREFRONT

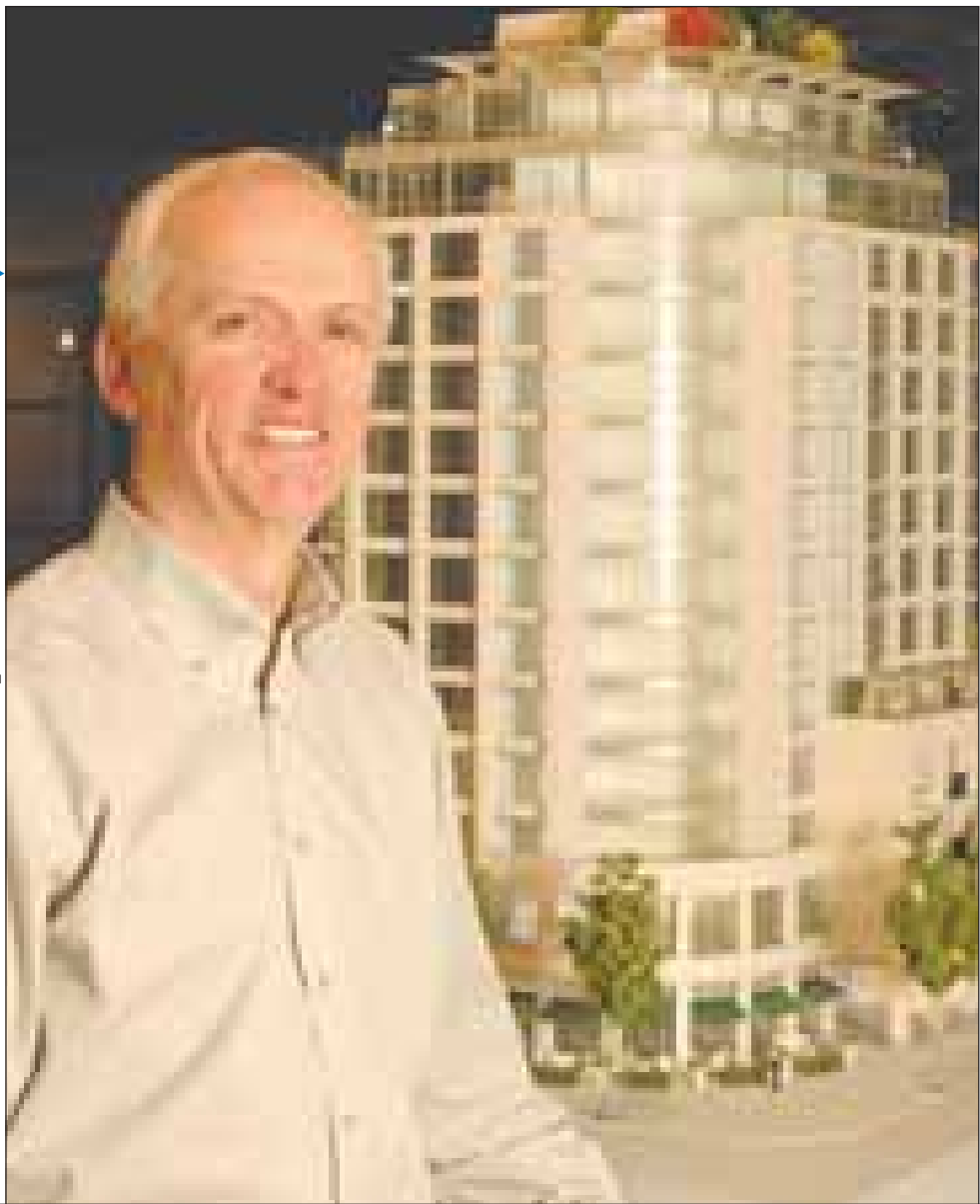
On-line sites replace bricks and mortar

THE GREEN REPORT
IMPACT ON REAL ESTATE

INSIDE PAGE B21



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COVER Victoria's Class A office space plunges to zero per cent as industrial space vanishes across the capital region

Hitting the wall

FRANK O'BRIEN

WESTERN INVESTOR

British Columbia's capital has hit the wall when it comes to office and industrial space, as Victoria reaps the result of a wildly successful seven-year-old civic program to encourage condominium development. Last year, more than 3,000 new condos were started while commercial building permits plunged.

Meanwhile, the Class A downtown office vacancy has fallen to a stunning zero per cent, according to a survey by **Colliers International**, and new office projects are years away from completion.

The industrial sector is in similar shape.

"There is virtually nothing on the Victoria market, regardless of whether one requires a 1,000-square-foot or 20,000-square-foot industrial space," said Colliers industrial specialist **Ty Whittaker**, who notes the tight market threatens to stunt business growth.

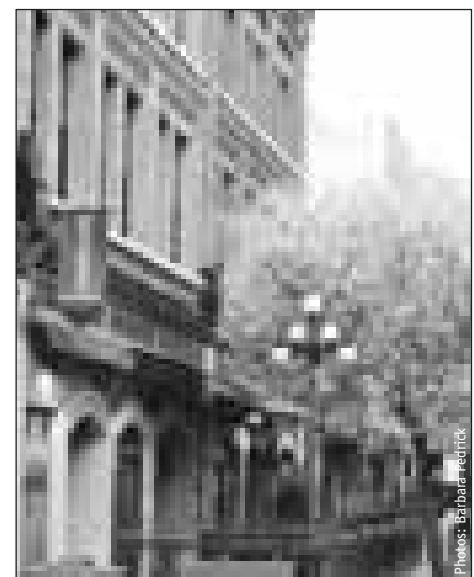
"Many companies are either seeking expansion or looking to start a business on the Island," he said, "but very few are able to make sense of our expensive inventory and lack of supply."

It is estimated that 95 per cent of industrial zoned land has been taken up in Victoria, and land in the adjacent centres, such as Langford, are selling for an average of \$27 per square foot, or around \$1.1 million an acre.

Langford has a number of business parks slated for development but "other communities have next to zero vacancy and are doing nothing to expand their inventories," Whittaker said.

He warns: "We have heard many groups conclude that they will service the Island from the Mainland or simply choose not to do business here."

Meanwhile, there appears to be no concrete



Developer David Chard on the site of the new Juliet tower, which will include street front retail in downtown Victoria. ABOVE: Class C heritage buildings are being spruced up to meet office space demand.

strategy to change the tight office or industrial vacancy situation anytime soon.

Mark Hornell, director of community planning for the **City of Victoria**, said that there are plans for zoning for more commercial space in the north side of the city, but no solid timeframe has been put in place.

Hornell added that the city doesn't have an overall economic development strategy that specifically concentrates on commercial buildings, which is left to the **Capital Regional District**. He noted that two Victoria office buildings have recently been approved, the first in the downtown core in 11 years.

However, Colliers' **Tristan Spark**, a downtown office leasing agent, notes the new buildings represent just 250,000 square feet, and won't come to the market for three years. He adds that recently another former office build-

ing has been converted to a condominium tower.

Conversions

Since 1999, twice as much office space has been converted to residential or other uses, as compared to new offices being built. This has resulted in a net loss of 105,000 square feet in the downtown core.

Further pressuring the office sector is growing demand from the provincial government. "The province is back," Spark said, after cutbacks over the past decade that saw little growth in government office demand. In the past year alone, the provincial government has leased up 70,000 square feet of office space, including a recent 10,000 square feet for its environment ministry. Spark noted that, while the province would prefer Class A space, "they are taking what they can get, even Class

Residential permits soared 82 per cent, commercial permits dropped by 65 per cent

C space." About half of all the office space in Victoria is claimed by one form of government or another.

Numbers don't work

Despite the heated demand, the numbers are hard to justify for new office development.

The current lease rates for downtown Class A office space remain in the \$20-\$24 per square foot range. With escalating construction and land costs, developers would need \$30 per square foot to make a new office feasible, Colliers estimates.

A new condominium tower, by comparison, can command \$500 per square foot in the core. This explains why, in the last quarter of 2006, total residential building permits in the city soared 82.3 per cent from a year earlier to \$154 million, while commercial construction permits fell 65 per cent to just \$23 million.

There are opportunities to buy older Class C space and improve the property to achieve higher rents. There are about 40,000 square feet

Please see *Mixed use* page A28

Vancouver Island

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MIXED USE from A27

available downtown in the 31 Class C buildings – many of them at Heritage age – representing an overall vacancy rate of 5.4 per cent. Such buildings would sell for from \$150 to \$200 per square foot, however, based on current listings. Class C space leases for \$13 to \$15 per square foot, triple net, while Class B space leases in the \$16 to \$19 range.

For the next three to five years at least, agents suggest, Victoria will continue to see a very tight office and industrial vacancy rate and a steady upgrade of older buildings.

Retail

Victoria's downtown retail vacancy rate is a surprisingly high seven per cent, much higher than in the Victoria's regional shopping centres, which posted a 0.8 per cent vacancy at the end of last year. Analysts note that much of the vacant space is in the old Hudson Bay store, which remains part of the retail inventory.

Others, however, see another reason for empty storefronts in the core, despite the increase in condo residents and virtually no new storefronts being added. "We have issues," said one leasing agent who asked not to be named. That issue is readily apparent to anyone who ventures into the core or visits warnings posted on Victoria's Virtual Tourist website: panhandlers and petty street crime, a problem that has plagued the downtown area for years.

Shopping malls are where retailers are heading. The combined vacancy rate for the 74

shopping malls in the Capital Region is a startling 1.2 per cent, and it is near zero in Victoria, Oak Bay, Colwood and Saanich. Lease rates for regional malls average \$40 per square foot and even neighbourhood malls command more than \$20 per square foot.

Condominiums

It is new condominiums that may provide both the mass of consumers and quality shopping space that could turn the downtown into a retail destination.

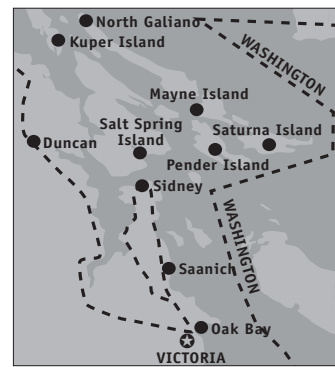
It is only now that the bulk of the new condominium towers that have started downtown are being completed, and some of the larger ones are still under construction.

Hornell notes that the downtown population is now around 1,700 to 2,000 – about the same as it was 20 years ago. "We are just catching up," he said.

There are about 1,500 new condo units under construction in the city, most of them in the core, according to Canada Mortgage and Housing Corporation, which notes the city has a 0.5 per cent apartment vacancy rate, the lowest of any major Canadian city.

Many of the new downtown condo towers will include retail space. An example is the 15-storey Juliet, which is arising from a former restaurant site on Johnson Street. Developer Dave Chard of Chard Development Ltd. whose company sold the Corazon condominium tower in 2004 a few blocks away, said the Juliet will include streetfront retail when it completes in two years. Chard is also including "live work"

Quick facts



Victoria

- City Population** 80,380
- Capital Region population** 237,253
- Average MLS detached house price** \$534,101
- Average MLS condo price** \$283,246
- Apartment vacancy rate** 0.5 per cent
- Office vacancy rate, Class A** 0.0 per cent
- Downtown retail vacancy rate** 7 per cent
- Industrial land, acre** \$1 million+

office space in a third condo tower his company has planned for the downtown.

A number of mixed-use redevelopment projects are underway in Victoria, including the Dockside Green project, the CN Lands and the old Railyard sites. In all, residential permits in the capital region totaled 3,119 new homes last year, up 25 per cent from 2005. ♦

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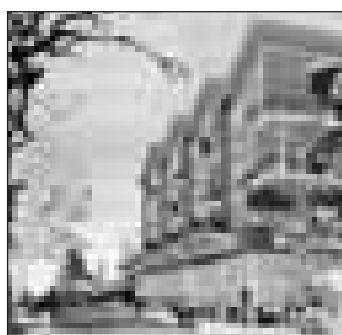
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