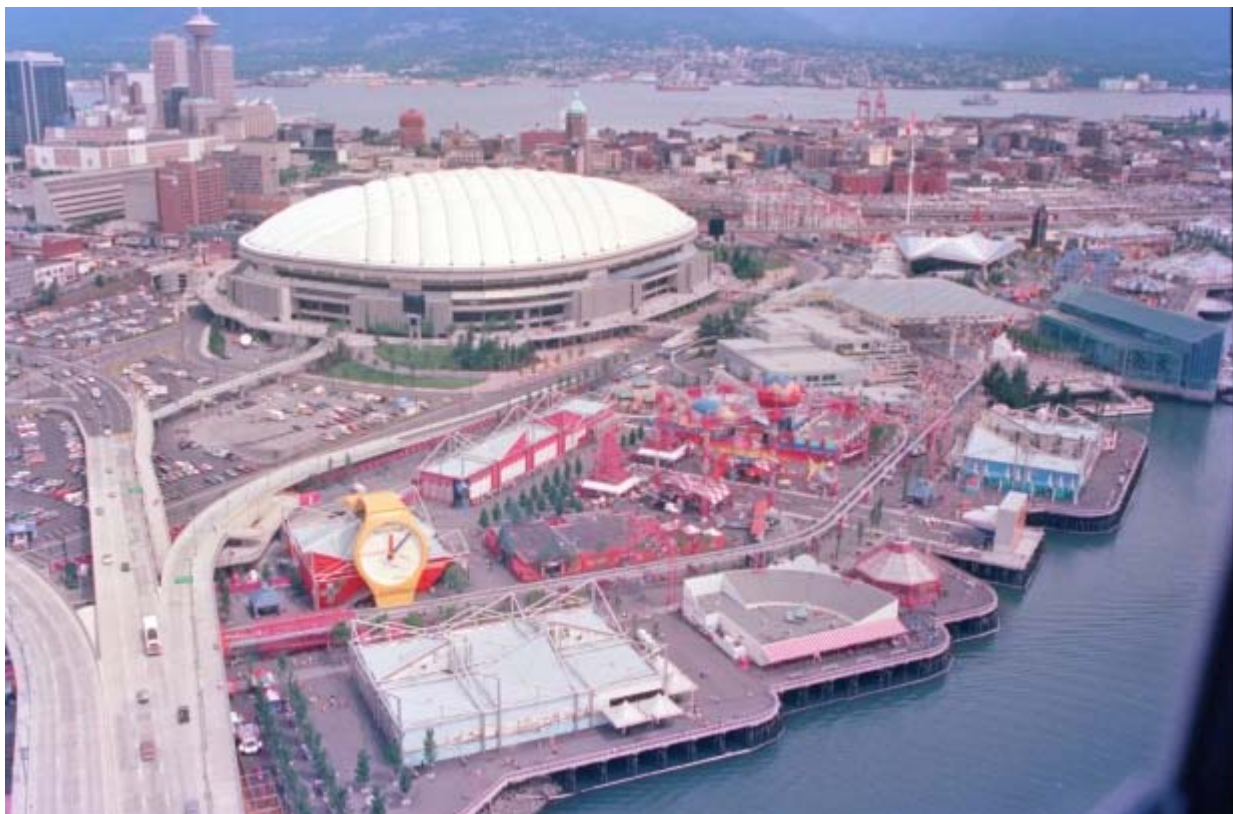


Ransford: Looking at housing costs 25 years ago

BY BOB RANSFORD, VANCOUVER SUN JULY 10, 2015



Expo 86 was a turning point for Vancouver, with the sale of the False Creek site to Concord Pacific launching a real estate boom in the city.

Photograph by: Bill Keay, PNG

I started working in the urban development business 27 years ago this week. I knew very little about the business of real estate development and construction. I had to learn quickly.

It was trial by fire and on-the-job learning during a pretty heated market at the time. North American real estate markets had climbed out of a trench that bottomed out in the late summer of 1982, when interest rates went north of 21 per cent and housing prices in most markets collapsed. Vancouver housing prices fell between 35 and 40 per cent between early 1980 and the late summer of 1982. But by the mid-1980s, Vancouver was on a strong rebound. It was the legacy of Expo 86 that began to transform the city soon after the fair ended. The sale of the 160-acre False Creek site to Concord Pacific in 1988 started a new real estate boom.

The launch of this development in Vancouver's inner city rippled throughout the region and by 1989, house prices not only recovered from the 1982 crash, they reached new levels.

When you're in the business and trying to make your living day to day building new homes, it's hard to forget the sharp slowdowns in the market where price increases suddenly stop, new construction plans are curtailed and employee layoffs happen.

I remember three distinct downturns that each lasted at least a couple of years: a 1991 downturn, a

1997 downturn and a 2008 downturn. But the general trend line over the last quarter century or so has been a steady climbing one.

No one knows if and when the next temporary downturn will come, but the reality remains: geography in this region constrains how much land is available to house people. Moreover, Metro Vancouver is a very desirable place to live in a world where mobility is increasing. In short, demand for housing will continue to be strong over the long term and supplying housing will become more difficult as developable land is consumed.

Given these realities, you would think, as a community, we would be striving to find ways to make it less costly to build new housing. Instead, we've allowed the costs of building to rise without asking any questions about how we can curtail these costs.

I did some calculations recently, drawing on my memory to recall what it cost to build the first multi-family project I was involved with 25 years ago. It was a four-storey apartment condominium building in White Rock. The costs I calculated did not include the land costs. I wanted to compare only the costs of the physical construction — materials and labour that are referred to as “hard costs” — and what are called “soft costs”: architectural and engineering design costs, marketing costs, construction financing costs and fees charged by municipalities. Remember, the bank prime rate at the time were at 14.5 per cent, compared to 2.85 per cent today. Obviously, construction financing costs were much higher back then.

I adjusted those historical costs for inflation over the last 25 years. Then I compared them to estimates of average hard and soft costs to build a similar building today. These are not precise numbers, but pretty good estimates based on my knowledge of the business.

These calculations reveal it costs about 35 to 40 per cent more today, depending on location in Metro Vancouver, to build a four-storey wood-frame condominium apartment than it did 25 years ago, even after adjusting for inflation and even in a much lower interest rate environment. Remember, these cost estimates do not include land and they do not include the developer's profit. These are strictly the cost inputs to deliver a finished project.

Why are costs higher?

First, it takes much longer to obtain development approvals and building permits today, therefore the costs of holding land have increased significantly. There is a long list of other costs as well that have been added over time. I'll just highlight a few.

There were no mandatory new-home warranty requirements 25 years ago. There was an optional industry self-insurance plan that subsequently collapsed during the leaky condo crisis of the mid-1990s. Today, builders are required to register and pay registration fees, as well as carry mandatory warranty insurance — all adding new costs.

Also in response to the leaky condo crisis, new rainscreen construction requirements were introduced, adding more costs to construction and requiring the hiring of new building envelope consultants to certify the construction. No one denies the necessity to design and build more durable buildings, so

these costs are fully justified.

There were no green building requirements, such as meeting the Canada Green Building Council's LEED silver or gold standards 25 years ago. These have added new costs, as have other energy-efficiency standards and universal accessibility requirements now enshrined in the building code.

Tougher landscaping preservation and landscaping design requirements have been introduced over the years. More stringent environmental requirements during excavation have been introduced, including treatment and remediation of groundwater discharged into sewers during construction. Much more stringent construction planning and control requirements are in place compared to 25 years ago, in an attempt to minimize neighbourhood disruption during construction.

Municipal fees in every area have increased and numerous new charges have been added. Fees to pay for public art, affordable housing, child care facilities, etc., either did not exist 25 years ago or were limited to a couple of municipalities. The list goes on and on.

If we were really serious about trying to make housing more affordable, we would start by looking back a few decades and trying to figure out how we built housing less expensively then, and determine whether we could try to do that today.

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