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Going Up: Worst things first

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By the time a prospective buyer walks into a condo sales office, the developer has already spent millions on land, building design, permits and consultants who can offer guidance on everything from improving wind conditions to choosing a project name. Building a condo is a very public performance, but not many of us see just what it takes behind the scenes. In this monthly series, we follow the steps involved in building and planning high-rise condos in the Toronto area.

To hear Mazyar Mortazavi tell it, taking his bike for a ride and stopping for brunch in new neighbourhoods is his key way to identify future development sites. "Most of it is intuitive," says the young developer and principal of TAS DesignBuild, adding that the foresight to see value in an emerging neighbourhood is part of the required skill set. His project Zed, at Bathurst and Niagara, is a good example. "People were like, 'Who is going to want to live on Bathurst?' And now it's the hottest, hippest, happening neighbourhood in the city."

Three years after the provincial government passed its greenbelt legislation, protecting a 1.8-million-acre perimeter of green space around the Golden Horseshoe, Toronto

developers are building up rather than out, literally laying the foundation for the next wave of urban dwellers.

The GTA will see almost 18,000 condominium unit starts this year, exceeding the record set in 2005, Canada Mortgage and Housing Corp. forecasts. Year to date, it is already posting numbers more than 70% higher than last year.

The industry value of apartment/condo building permits issued in the Toronto Census Metropolitan Area last year totalled \$1.6-billion. In the first four months of 2008, that total was already more than \$866-million.

Despite the bullish market, developers fear that increased development charges (already equal to 10% to 20% of the cost of a home) could impede the demand. Development charges for condo construction in the city of Toronto have increased by more than 300% since 2001, according to a Building Industry and Land Development Association (BILD) report, released last month. BILD is calling on the municipality to back away from any new increases that would decrease the affordability of new homes.

When the payback is often three to four years away,

developers have to be adept at managing financing, keeping interest and carrying costs to a minimum when making the initial land purchase. "We like to pay cash for the land. It's where the most risk is in a project," said Sam Crignano of Cityzen, a company currently developing 14 projects with 9,000 units in the

Toronto area.

Delaying the closing date until rezoning and other municipal approvals are in place is one option, especially since banks are reluctant to finance land that hasn't been approved, says Mr. Crignano, who likes to add value through the approval process rather than buy a ready-made site. He is even more conservative than the banks when it comes to presales. While lenders generally ask for two-thirds of units sold before advancing funds, Mr. Crignano likes to wait until he has three-

quarters sold before he breaks ground.

Before they look for financing, developers pay a visit to a cost-consulting firm to

determine the highest and best use for the property. Detailed estimates of construction costs and soft costs, such as studies, development charges and marketing (which can add another 30% to 60% to the total), are measured against the market condo prices. "With the difference between what you sell it for and your hard and soft costs, you buy two things - you buy the land and you pay for the risk," says Michael Barker, executive president of cost consulting for the

Altus Group, Canada's largest independent cost-consulting company. "Developers are prewired to see opportunities where other people see risk," says Mr. Barker, who explains that a 15% profit means that for a 300-suite project, the last 45 units sold are profit, but they're suites that are usually the most difficult to sell.

Choosing to build to environmentally friendly Leadership in Energy and Environmental Design (LEED) standards can cost 10% to 15% more, yet provide no guarantee of a higher unit price. "We make less money; it's a big hit on the bottom line," says Mr. Mortazavi, whose M5V development on King Street West has the first LEED-certified sales centre in North America. "At the end of the day we say this is the commitment."

But Mr. Mortazavi sees a potential for misleading marketing within the LEED system. "You can become registered with the Canadian Green Building Council and market that you're going to be green. It's only once you've built that you get your certification."

As the most active and mature condo market on the continent, Toronto has built up a solid community of consultants to shepherd the projects along. "Not only is the bureaucracy vast but the consultancy is vast," says consultant Barry Lyon. "Outsiders to the city are often amazed at how complicated and lengthy our process is, but we're all used to it."

In addition to the lenders and the cost consultants, a developer requires a legal firm to handle the municipal application process. And then, besides the architect, there are the specialists for the studies on parking, traffic, acoustics, shadows, tree preservation, heritage and wind levels for pedestrians.

The wind study alone takes about eight weeks and can cost \$60,000 or more. A detailed scale model of the site (about a foot high for a 20-storey condo) is arranged on a revolving platform. "It's like being King Kong on a movie set," says Frank Kriksic, project manager and principal with RWDI, a Guelph company that is the world's largest wind-engineering consulting firm.

The wind-tunnel testing measures structural and cladding wind loads (pressures on the building skin). Pedestrian comfort is also a consideration when high-rise developments create extra-gusty conditions by capturing stronger winds at higher altitudes and redirecting them to ground level.

When requests for rezoning and other development changes can't be resolved, projects can be appealed to the Ontario Municipal Board, an independent tribunal.

Mr. Crignano estimates about half of his projects end up before the OMB for rulings. While some developers welcome the OMB's influence, others say it is only a stopgap measure in a process that is too politicized.

"The OMB is a very convenient scapegoat for politicians who don't want to put themselves on the firing line," says real estate lawyer Patrick Devine of Fraser Milner Casgrain. "Very good projects get turned down for political reasons. Unfortunately, other than the mayor, there's no one elected to city council who has the mandate to look broader than their own individual ward."

So-called chequebook planning is another controversial issue. Under the Planning Act, the municipality can permit zoning density increases in return for community benefits. Community benefits can include park land, public art, daycare centres and street improvements or cash-in-lieu.

City planners point to the Hockey Hall of Fame, which uses an old bank building left extant inside the complex of Brookfield Place (formerly BCE Place), as an inspired example of Section 37 benefits, saying the clause is one of the most misunderstood planning tools out there.

Many developers dislike the subjective approach. "Rules are not very clear, negotiated on site-by-site basis," says Mr. Devine, citing a Minto project in Yorkville where developers were asked for \$2.6-million in benefits. "The city kept lowering its demand, and finally we went to the OMB and it ruled that the city had no right to ask for anything."

Cathie Macdonald, president of the Deer Park Residents Group, agrees that the system could be improved. After negotiating with the developer of a proposed project at Yonge and St. Clair, Ms. Macdonald's group got its requested height reduction (residential towers dropped from 32 and 39 storeys to 16 and 37 storeys). Also part of the plan were more than \$2-million in Section 37 benefits, such as a new park, and street and sidewalk improvements. Still, she's uneasy about the process. "I don't like the 'let's make a deal' approach," says Ms. Macdonald, who trained in architecture and is a former city planning employee who volunteers with advocacy

group People Plan Toronto. "It's up to the ward councillor to make the decision for their ward."

In the 10 years since amalgamation, Toronto area planners have worked to harmonize guidelines and create avenue studies that spell out requirements right down to the individual street level. But while developers want fewer design and bylaw fetters, neighbourhoods look for more focused plans. "There has to be intensification in the city," Ms. Macdonald acknowledges. "The problem is, there are no rules about how it should happen."

z Next week: Permit Alley

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