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The great B.C. real estate bust

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Offering mountain view and golf on the doorstep, developers spared no expense to draw retiring boomers to British Columbia. Too bad about the timing, though: Utopia is now in creditor protection

Leona Snider can pinpoint the Great B.C. Land Bust to the day: September 9, 2008.

Until that fateful date, it looked as if the 19 years of work that she'd put into her dream would finally come to fruition. The Rise, her 735-acre hillside development-"the most beautiful spot in the province," she says-was the first anywhere on North America's west coast to incorporate a winery component. Above the home sites, climbing toward a mountaintop plateau, was a designer golf course; below, on Lake Okanagan, a private beach club. Estimated build-out: $1 billion. On the day sales opened in 2005, 40 of 53 home sites on offer were snapped up in 90 minutes.

After that big bang, however, there was a long trickle. By 2008, Snider realized she needed to rejig units to bring the price down-under $500,000 rather than nearly $1 million. That required hiring new contractors, not an easy thing in the booming Okanagan. "Still, on September 9 we had eight contracts written," says Snider.

And on that day, her lender, Calgary-based Arres Capital, backed out of the project. Within weeks, Snider was in court seeking bankruptcy protection for some $50 million in liabilities.

And so it went across B.C. By the summer of 2009, dozens of retirement and recreational projects involving tens of thousands of homes resided in some stage of panic, resignation or abandonment. The media poster child for the phenomenon was Len Barrie's Bear Mountain Resort near Victoria. Yet that project, well on its way to a build-out value estimated at $2.5 to $3.2 billion, was in much better health than many of its imitators.

Last November, around the time that work on Bear Mountain began to dwindle, a $600-million development called Wyndansea, on Vancouver Island's west coast, had already been granted protection (later rescinded) under the Companies' Creditor Arrangement Act. On the island's east coast, another Bear Mountain doppelganger, Cliffs Over Maple Bay, had already fallen into receivership. In January, an investor took over the billion-dollar-plus Revelstoke Mountain Resort after the project's lender backed out. In May, another bucolic development on the island's east coast, this one slated for 2,300 homes, slipped into limbo.

Only a year earlier, it had seemed the ingredients were in place for a development boom to end all development booms. Technological changes would allow people to live wherever they wanted. The biggest-ever wave of retirees was looking to move somewhere nice. The economic outlook in Canada's West was bright beyond bright. And capital flowed so smoothly that no project need go unfunded, nor any mortgage application go unapproved. Developers, many of them new to the game, saw a once-in-a-lifetime opportunity to make like 19th-century patriarchs or play real-life SimCity by building a town of one's own. And not just any town. Where main streets used to feature bakeries, barber shops and hardware stores, the new variations would centre on spas, marinas, wineries and golf courses. If it all seemed too good to be true, well, it was.

Although some on Vancouver Island might dispute it, the epicentre of B.C.'s 21st-century land bust is the Central Okanagan city of Kelowna, as becomes abundantly clear during a drive along its outskirts with developer Jamie Maw. In 2008, he and his equity partners finished a condominium complex in the nick of time. "Toward the end of 2007, we saw the market slowing," he says. "Construction costs had risen 22% over two years. Crap tradesmen would walk down the street for a hundred-dollar bonus. We raised our prices in stages as much as $400,000 a unit, and still sold out. We were lucky." Maw's group had two other projects on the go, but the slowdown forced them to rethink both of them.

Most developers were not so lucky. "Talk about a folly," Maw says, steering by an idled site on Kelowna's southern edge. "Even he stubbed his toe," he adds, pointing out a project initiated by a hitherto respected developer. By the end of 2008, sales of residential units here in the Central Okanagan district had dropped to scarcely 100 a month, leaving sufficient inventory on MLS for an astonishing 40 months of sales. (Six months is considered a balanced market.) In step with a surprising countrywide real estate resurgence, the pace picked up a little this spring, but in August there remained sufficient listings to fulfill 14 months of sales.

The upward part of the cycle began around 2002. The B.C. economy was strengthening, and, equally important, Alberta's had shifted into hyper-speed. "In the Okanagan and Shuswap, 20%-plus of buyers were from Alberta," says Don Gerein, who owns the Kelowna office of Macdonald Realty. "Albertans like to spend their money." And an array of social phenomena boosted demand: the boomer demographic bulge, increased telecommuting and the early-retirement trend. "We'd thought 60 to 65," says Gerein of the typical Okanagan property shopper. "It changed to more like 40 to 60."

The sudden influx of buyers was met by a paucity of inventory, with predictable effects. Prices rose at a pace that would have caused double takes in Sunbelt states. Between 2001 and early 2008, prices for detached houses in Kelowna rose 175%; by 2007, it was gospel that a building lot on Lake Okanagan started at a million dollars. Yet the jump was higher elsewhere. In Nelson, nestled in the Kootenays, price increases briefly touched 500%.

Land development has historically rivalled forestry as British Columbia's stock-in-trade. For a time, property was developed here in much the same way as in the rest of the country. Then, beginning in the 1970s, various shifts in the body politic combined to thrust British Columbia onto its own evolutionary path. One change was the rise of anti-development sentiment, whether based on environmental consciousness and concern for community or simple NIMBYism and general cussedness. The once straightforward development company-a man, a truck, a bulldozer-was rendered obsolete. The survivors were those who could strategize and cajole, not to mention tread water financially during the months or years-and, in some cases, decades-required to tailor plans and gain approvals.

A related factor was the creation in 1973 of the Agricultural Land Reserve, which restricts virtually every hectare of arable land to agricultural uses. In a province so mountainous, the reserve amounts to only 47,000 square kilometres, but this land happens to be the easiest place to build housing. There's no doubt the ALR has enhanced B.C.'s ability to feed itself, but no doubt either that it's had a complicating effect on land development. Places like Kelowna took on a patchwork pattern, with city blocks alternating with fields and orchards. Development was pushed up onto hillsides and mountain slopes. "You need to get the infrastructure up there," says Gerein. "It definitely adds to the cost."

At the same time, developers were mesmerized by the possibility of getting some of that low-priced agricultural land out of the ALR and into play. Given that the value of converted property could vault to millions of dollars an acre, no loophole was too small or horse trade too unthinkable. One notorious case is Tobiano, a new dot on the map near Kamloops intended ultimately for more than a thousand residential units. Approval to convert the ranchland was granted partly because of the developer's offer to substitute a comparably sized chunk of unregulated land. But the site's removal from the ALR provoked a judicial inquiry.

If the effect of all this was to make the development process more convoluted and expensive, another phenomenon came along to prove that it could all be worthwhile-Whistler. Germinated in the late 1960s, the ski town has featured Canada's highest residential prices for most of the past two decades. Two generations of development specialists have learned their trade there, and Intrawest ULC, which purchased the resort in 1986, has exported the model worldwide. Across B.C., successful ski villages including Panorama, Big White, Silver Star, Sun Peaks and Kicking Horse have since been built in Whistler's image.

The success of such places is determined as much by real estate sales as skier visits, so the offerings must be precisely targeted and highly appealing. An entire industry of real estate marketing-and-messaging companies specializes in helping developers flesh out the elaborate back stories used to guide the design, construction and ultimately sale of their creations. As well, "sense-of-place consultants" are called upon to ensure that a development slated for Kelowna doesn't feel like it belongs in Kamloops or Vancouver. Across North America, B.C. is seen as being an innovator in this black art.

Innovative thinking was certainly in evidence at many of the province's 21st-century wave of residential resort developments. Hiking and biking trails were de rigueur, as were on-site resort hotels, with their bars, restaurants and spa facilities. A half-dozen developments linked themselves to vineyards and wineries. At least that many offered marinas. Variations proliferated. Tobiano has an equestrian component, Jumbo Glacier a proposed European-style village and year-round glacier skiing.

Still, it was generally assumed that nothing quickens the pulse of an affluent semi-retiree quite like a golf club. Of the approximately two dozen courses that originated during the boom, virtually all were designed as high-end resort facilities, often with a celebrity name attached. Largely restricted to steep hillsides by the ALR and simple geography, the courses were fiendishly expensive to build, typically running $15 million to $25 million, when not further inflated by runaway construction costs. Most could budget for only 25,000 or 30,000 rounds a year and perhaps $2 million in golf revenues, against operating expenses in the $1-million range.

That didn't leave a lot of room for overhead and debt servicing. Still, accessing capital was rarely a problem. "You could make the argument that the baby boomer was the ultimate solution," says Cary Fisher, who easily found $8 million in financing for the Redstone Resort near Rossland. "And it was the Greenspan era. People came to believe that the economic cycle had been managed away."

The easy credit seems all the more remarkable in light of the inexperience of many of the developers. The Rise's Leona Snider had spent most of her career as a drilling contractor. Fisher stumbled into real estate development while managing the local branch of Community Futures Development Corp. Before embarking on ecologically attuned Kootenay Lake Village, Jon Long was a film director best known for Imax hits like Extreme. Golfer Richard Zokol became a developer because it was the only way to fund the creation of his dream course. Bear Mountain's Len Barrie is a former NHLer who leaned on more than a dozen hockey buddies for financing. At Cranbrook's Wildstone-another billion-dollar-plus development that has had its problems-onetime NHLer Joel Savage applied the same formula. As for Jamie Maw, he is best known as a restaurant critic.

It would be tempting to attribute the troubles experienced by these freshmen and sophomores to inexperience-except that bigger, seasoned companies are doing no better. Intrawest has been working for a decade on Tower Ranch, a golf-course community that occupies an entire mountainside above Kelowna.

The developer of Whistler and Mont Tremblant finally opened the Thomas McBroom-designed course last year to good reviews, but it looms over streets of mostly empty lots. Just south of Kelowna, Greata Ranch, created by Concord Pacific, Canada's largest residential developer, promises the finely tuned detail apparent in the company's high-rise communities in Vancouver, Calgary and Toronto, but the vineyard and marina-based development has sold sparingly. The Grenier family, developers of $1.4-billion Tobiano, have been in the development business for three decades via Pagebrook Inc. Their project sold respectably out of the gate in 2006, but by 2009 they had slashed lot prices as much as 50%.

In British Columbia, there is a long tradition of developers starting out small and becoming much larger-the Intrawest model. But there is an even longer one of people attempting to create private visions of paradise: tiny utopias brimming with truth, beauty and love-even, in some cases, of the free variety. Many among B.C.'s current crop of independent developers seem to fall in between these two extremes. Yes, the profit motive was ascendant. But no, the developers didn't view the community they were attempting to create as a stepping stone to bigger things, but rather as a life's work in itself.

Looking back, most wish they'd had more time and, especially, more money. Snider says if she could do it all over again, she would find an equity partner so that she could focus on operations and have a cushion if cash flow problems arose. Jamie Maw is grateful that an apparently consummated 2007 deal to buy a $3.2-million property fell through (the land has since lost a third of its value). Timing and cycles are a common theme. "Real estate is about location, but it's also about timing," says Don Gerein, who suspects many of those currently in trouble would be fine if only they'd got their projects off the ground a couple of years earlier. Cary Fisher actually budgeted for a downturn, and Redstone has avoided the worst of the problems partly as a result. "You can't avoid the real estate cycle," he says. "These things have been going on for 300 years."

The current down cycle might persist for a while, as down cycles in B.C. often do. One contributing factor is what Jamie Maw calls "the WestJet Effect." Cheap flights from Calgary and Edmonton to Castlegar, Comox and Kelowna helped launch the boom, but now the airline also flies to places like Phoenix, where the market is so dismal that B.C. properties are undercut by 50% or more. Also at issue is the cost of maintaining communities with infrastructure for hundreds or thousands of residences when only a fraction of those are built and occupied.

Still, timing may also be on the side of at least a few projects. The demographic picture hasn't changed, and, this summer, as the economy improved and oil hovered in the $70 range, the property market showed surprising signs of life. Keith Funk, a partner in New Town Services, an urban planning firm in Kelowna, is busy with several exciting Okanagan projects, "places where you can live/work/play/shop." Houses will still cost $240 or $310 a square foot, but they will be smaller, with higher-quality outdoor space, thus bringing the total cost down. Too many current projects were built on an out-of-date, suburban model, he contends. "They're like Arizona or Palm Springs 20 years ago."

Funk points out that construction costs have dropped by almost a fifth, and developers are picking off distressed properties at a steep discount. Margins, he believes, could still push 20%. And of course, a project initiated now would come on stream just as the market picks up again-with luck, in two or three years' time. Listen for a while, and building a town of one's own begins to seem like a prudent idea.

Things were actually sunnier on Vancouver Island than in the Interior, but that hasn't prevented another crop of developers from announcing a glittering slate of projects. Sotheby's International Realty Canada offered a seven- and eight-figure collection of vineyard properties sprinkled around the Okanagan. Golfer Greg Norman flew into the Okanagan to help announce a development featuring a golf course, winery, tennis complex, village centre and 2,000 homes. A partnership involving the Osoyoos Indian Band declared it would put up 450 residential units alongside an existing vineyard and golf course. And on Kelowna's west bank, a development incorporating a vineyard, 650-slip marina and boutique hotel was unveiled. Developer John Weisbeck is a onetime MLA and a retired dentist. His time in government no doubt helped him navigate the province's approval labyrinth. And as for the development itself, in this province it seems dentistry experience is as good a qualification as any.