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Chill falls over condo development

Recession hits industry hard

By: Murray McNeill

23/02/2009 1:00 AM | [Comments \(0\)](#)

Gun-shy lenders and the deepening economic recession are casting a chill over the multi-family, residential-development market in Winnipeg.

A spokesman for one of the city's biggest and most active condominium developers -- StreetSide Development Corp. -- said he expects StreetSide will face tougher lending conditions when it seeks financing later this year for two new condo developments.

"The credit requirements, from what I've heard... have tightened up for everybody," StreetSide manager Marty Maykut said, including big players like StreetSide, which is a division of The Qualico Group.

Another local developer -- Mark Penner of Green Seed Development Corp.-- said Green Seed has split its You Cube condo project on Waterfront Drive into two phases because of concern the recession has dampened the demand for condos.

"We did take a more cautious approach because of the economy," Penner said. "We want to get the first ones completed before we start the second phase, so we can make sure we don't get caught with a whole bunch of vacant units."

The developers for two downtown residential conversions -- The Edge on Princess at 230 Princess St. and the Residences on York at York Avenue and Donald Street -- said they haven't been affected by the credit crunch because their financing was in place before the global financial crisis hit last fall.

"One of the other things running in our favour is that these are rental units," said Winnipeg businessman Mark Hofer, developer for the \$4-million Edge on Princess, which involves the conversion of a four-storey Exchange District warehouse into a residential/commercial complex.

Hofer said in this economic climate, it should be easier to find someone to rent The Edge's 43 bachelor, one-bedroom and two-bedroom apartments than it would be to find someone to buy them.

It's the same story with The Residences on York. Developer Andrew Marquess of B & M Land said he's confident they'll find tenants for the 181 one- and two-bedroom apartments in their complex, which used to be York the Hotel, and before that the Sheraton Winnipeg.

But he's glad the financing is already in place.

"On a go-forward basis, I think money is going to be much harder to get," he said.

"People are going to really scrutinize these projects much more closely than they did before."

That view is shared by RE/MAX real estate agent Bill Thiessen, who specializes in selling downtown condos, and CentreVenture Development Corp. president and CEO Ross McGowan.

McGowan said a lot of lenders are requiring up to 40 per cent equity in a project instead of the usual 25 per cent.

And Thiessen said he's been told some lenders are insisting that 60 to 70 per cent of units in a proposed condo development be pre-sold before they grant a mortgage. That compares to as little as 25 per cent before the credit crunch hit.

He said that could pose problems for developers.

"In Winnipeg, to pre-sell 70 per cent of something is, maybe not impossible, but improbable. Winnipeggers want to be able to touch it and feel it before they commit to something. A good pre-sell in Winnipeg is if you can pre-sell 25 per cent of a building."

McGowan said CentreVentre, which is the city's downtown economic development agency, tries to help bridge the gap by offering tax credits and grants to developers to encourage more multi-family residential development in the downtown.

But he'd also like to see the federal government offer income tax credits to the people who buy downtown condos or rent downtown apartments. That, too, would help to spur development, he said.

Maykut said the volume of pre-sales will determine whether StreetSide proceeds with its two new condo developments -- the \$20-million, 62-unit, Verve Tache project in St. Boniface and the \$20-million, 60-unit, Phase 4 of its Stonecrest development in southwest Winnipeg.

"I don't think we're nervous that we couldn't get financing," he said. "But if the global financial crisis scares off buyers, we won't start (this year)."

He said two factors working against them are that there's a temporary glut of completed but unsold condos in Winnipeg. And condo sales have slowed since last fall.

But on the bright side, the Manitoba economy and the local housing market are

weathering the economic downturn better than those in most other provinces, he said, which should help bolster consumer confidence.

For competitive reasons, Maykut declined to say how many units StreetSide would want to pre-sell before it would proceed with the projects.

Know of any newsworthy or interesting trends or developments in the local office, retail, or industrial real estate sectors? Let real estate reporter Murray McNeill know at the e-mail address below, or at 697-7254.

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Neither borrower nor lender be

The financial crisis and economic downturn are having an impact on Winnipeg's multi-family residential development. Industry officials say lenders are attaching tougher conditions to their loans, making it hard for developers to obtain financing. Here are some examples:

More equity -- Some lenders are insisting on 40 per cent equity in a project, instead of the usual 25 per cent, according to CentreVenture Development Corp. president and CEO Ross McGowan.

More pre-sells -- Some are requiring that up to 60 to 70 per cent of the units in a proposed condo development be pre-sold, instead of the usual 25 per cent, according to Re/MAX Professional Realty sales agent Bill Thiessen.

Higher interest rates -- Some lenders are also charging higher interest rates on their loans, according to SteetSide Development Corp. manager Marty Maykut.

Here is an update on several previously announced downtown multi-family projects:

You Cube -- Construction of the first phase of this 21-unit, townhouse-style condo development at Waterfront Drive and Heaton Avenue is to begin this spring and should be complete by early winter. There will be 10 units in Phase 1, and 11 in Phase 2, which is tentatively scheduled to begin once Phase 1 is complete. Units include two-, three- and four-storey models, ranging in price from \$170,000 to \$300,000. Seven have been sold so far.

The Edge on Princess -- This 43-unit apartment complex in a converted Exchange District warehouse at 230 Princess St. should be ready for occupancy in May or June. There are 36 bachelor and one-bedroom units, ranging from 400 to 650 sq. ft., and seven two-bedroom, 1,200-square-foot, penthouse suites. Rent for the bachelor and one-bedroom units will be \$650 to \$900. Rent for the penthouse suites has not yet been determined.

The Residences on York -- This \$22-million conversion of the former York the Hotel to a 181-unit apartment block is nearing completion. The developer hopes to have the one- and two-bedroom suites ready for occupancy in May. Rents will range from \$1,000 to \$1,300 a month. The building will include a 16,000-square-foot spa and fitness facility on the second floor, a 300-seat restaurant/lounge and 95-seat cafe on the main floor, and an adjacent, 120-stall parkade.

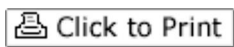
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