

Should I Build or Buy?

Can You Do It?

Can you meet the challenge of overseeing building of new premises? Talk to specialists in non-residential construction management. They have first-hand knowledge. And knowledge is power.



Rising commercial real estate values and low interest rates are nudging many potential purchasers to consider build-to-suit over purchasing an existing building. The economics *look* straightforward. If, for example, an existing building costs \$100 per square foot to buy, can a custom structure be built for the same amount? The idea is interesting but some key questions must be answered first.

Who's in Charge?

Someone within your organization will have to lead the building project; usually this means the owner or another key player. This person needs to be available for all facets of the project, including planning and site meetings, building inspections, coordination of contractors, etc. How will this person's involvement in the construction project impact the well-being of the company? If such a person is not available, you will need to hire a project manager.

Timing

Building construction projects require at least a one year minimum lead time. While the building itself can be physically completed in 4 or 5 months, additional time (7 or 8 months) must be factored in for the initial planning, permit and approvals stage. It can take several months to obtain a building permit and you must have a thorough knowledge of the elements involved.

Site Availability

Is suitable land available? Can you afford it? Land is becoming a scarce commodity and zoning, servicing and site conditions must be suitable for the intended use. If you are planning on constructing a small building, but only larger parcels are available, the operating costs will be higher due to higher real estate taxes. Constructing a small building on a larger land site will generally not provide any economies of scale.

Costs

Can I actually build for what I think I can? There is a common misconception that with some "smarts" and "know-how" buildings can be completed at or under cost. The final total with *all* costs is almost always more than the owner expects. Assume that new construction always costs more than the market value for similar existing products.

Financing

Can I get the project financed? Financing is, of course, the first and most critical part of the building equation and must be settled early in the planning process. Construction financing is different from the "take out" financing. You need to be informed about what is required in both cases.

Get answers to *all* these questions before pursuing the design-build route. Armed with as much information as can be gleaned from every source, your decision will become clear. ■



Also in this issue

- Raising the Roof
- Land Prices Indicate Shortages

WELCOME TO Working Spaces

Metro Suburban is Ottawa and Eastern Ontario's leading independent commercial property broker. As commercial brokers, we put space to work and we only deal with space for work – matching buyers with sellers, tenants with owners, investors with investments.

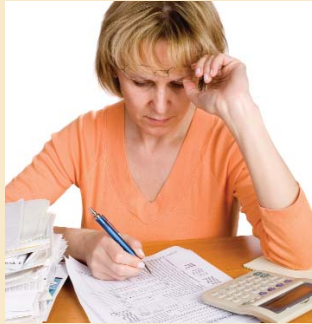
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YOUR BEST INTEREST

Taxes Not Appealing

by Monika Cholewa, Deloitte & Touche LLP



Remember that property assessment notice you received from the Municipal Property Assessment Corporation last October? Your 2006 municipal taxes are based on it. Municipalities set their tax rates to cover the cost of local services and reserves. Each property class (residential, commercial, industrial) has a tax rate. Your tax bill is calculated by multiplying the applicable tax rate by the assessed value of the property. For example, for a commercial office in 2005:

Assessed Value (\$375,000) x Tax Rate (0.0490212) = Tax Payable (\$18,383)

If you feel your taxes are unfair, you can file an appeal with the Assessment Review Board. But be prepared for the unexpected.

Municipal taxation has grown increasingly complex, driving property owners, developers and managers to seek professional advice. Tax advisers can offer property owners expert valuation, assessment and municipal tax calculation – they can maximize savings by tailoring a plan of action specific to your property.

One property owner appealed his assessment successfully; the assessment was lowered from \$420,000 to \$270,000. However, his taxes remained the same. Why? Because property tax levels are frozen and taxes are based on the amount paid the previous year. The Ontario Superior Court of Justice agreed with the municipality. In some cases, recommending an increase in assessed value of a property has been the only way to reduce taxes. ■

BETTER INVESTING

Raising the Roof

Businesses can be like growing families; a perfectly adequate “home” gradually becomes cramped and outdated as its occupants’ requirements expand and evolve. More space is required, but moving can be costly and disruptive. Extending out is rarely an option. Expanding upwards is.

Increasing ceiling height in an obsolete industrial building can transform it into an up-to-date facility, at a fraction of the cost and disruption of building new or moving to a larger acreage. If moving a family is a challenge, moving an existing warehouse or industrial operation can be a nightmare on many levels. Construction delays, lost revenue due to down-time, staff relocation – the list is long and intimidating.

Raising the roof of an existing operation can be an affordable alternative for larger buildings. The amount of new material used is significantly less. Environmental impact is minimized by using the existing roof structure, framework and services. Building permits and inspections are consequently less complicated.

Roofs can be lifted in sections or as a whole, drastically lowering or even eliminating down-time entirely. By any



measure, the process is faster than building new. Installing efficient high-bay storage and warehousing is an excellent example. Raising the roof of an existing structure could move your business into a more competitive position by increasing the height at which product or materials can be stored. Handling and management functions are updated by keeping the operation under the same (but higher) roof.

Raising an existing roof can also be an ideal and affordable way to add

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PROPERTY INSURANCE

5 QUESTIONS to ask your broker about Property Insurance

Remember, you’re the customer and this information is critical to your financial livelihood. There are no bad questions and you can never have too much information.

1. How much insurance do I need to ensure I am covered for replacement cost, not just real estate value?
2. Can I get “all-risk” coverage rather than just “fire and extended” coverage”?
3. Is my insurer “A” rated and how is it rated by AM Best (see www.ambest.com for more on these international ratings).
4. What coverage should my tenants have, based on their use of space (restaurant, automotive, etc.)?
5. How can I be sure I am getting the best deal and that my premium is competitive?

SELLING WORKING SPACES

Land Prices Indicate Shortages

“They’re not making it anymore” is the last word on land. Ottawa – with the largest land mass of any Canadian city – certainly has a lot of land. However prices in the marketplace suggest otherwise. How does one actually judge the adequacy of supply?

Ontario’s Planning Act requires municipal official plans to provide an adequate supply of urban lands to keep land markets in balance. How should they do this? As is the case for so many public policy decisions, there are apparently (at least) two competing forces at work—1) supplying more land to keep prices from spiraling out of control, and 2) restricting land supplies so densities increase.

Instead of trying to guess at future

supply, municipal planners might be better served by using prices to alert them to pending land shortages.

Land prices in Ottawa are increasing rapidly and that tends to indicate a shortage. Raw land prices (at the urban fringe) have increased significantly in the last four years. Bulk lands available for development were trading at \$50,000 to \$60,000 per acre in Kanata four years ago. Now those same lands trade over \$100,000 per acre, and \$150,000 per acre in the Orleans area may soon be commonplace.

Lands just beyond the urban boundary that were trading in the \$8,000 to \$16,000 per acre range four years ago are now trading in the \$16,000 to \$27,000 per acre







a second floor or mezzanine level for office or retail space. Conversely, office or retail space can be located on the first level and storage moved to the second.

If your current location is adequate in every way but capacity, the option of raising the existing roof is worth exploring. Construction techniques have evolved to the point where the concept has become not just viable for larger properties, but a logical solution to many space shortage problems. ■

WHAT IT'S WORTH

What Are Buildings Trading For?

	Address	Size (Sq. Ft.)	Sale Price	Price Per Sq. Ft.	Date of Sale
OFFICE BUILDINGS	 1000 Innovation Drive	154,000	\$32,025,000	\$207.95	December 2005
	 2 Gurdwara Road	90,000	\$13,000,000	\$144.44	November 2005
INDUSTRIAL BUILDINGS	 2355 St. Laurent Blvd.	72,000	\$5,600,000	\$78.00	September 2005
	 2001 Bantree Road	257,788	\$20,355,000	\$79.00	July 2005

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range. The City of Ottawa has inadvertently encouraged this price bubble by introducing a wrinkle in its new Official Plan—land within 1000 metres of the urban boundary cannot be used for rural lots (0.8 hectare lots that are served by private services; i.e., well and septic systems) yet they are not allowed to be designated for urban uses. This, in effect, appears to expropriate the development rights of the affected landowners without compensation. The perverse effect has been to increase the value of those lands.

Development land in the near core area (say, along Carling Avenue) has increased to \$20 to \$35 per square foot. Land for commercial or condo development in the core (including the Byward Market, Lower Town and Centre Town) has increased to \$15 to \$20 per square foot of FSI (floor

space index). So for land with a FSI of 5.0, expect to pay up to \$100 per square foot and for land with a FSI of 8.0, you might pay \$160 per square foot (if you can find it).

The City has other conflicts. It has allowed conversion of industrial lands to residential lands on the basis of: a) an apparent lack of demand for industrial land, b) an increase in demand for residential land, c) a shortage of land available for residential development and d) a public policy goal of mixed “live where you work” development. The recent approval of a residential development on Colonnade Road is an example of this.

The City could soon re-evaluate the wisdom of converting industrial lands to residential purposes. Industrial land prices are rapidly increasing. Prices have reached \$180,000 to \$200,000 for well-located sites in



the Hawthorne Industrial area, and some lands may trade above \$200,000 per acre.

Land prices are volatile; they tend to be the first down in a recession and the last to rebound. Even during a boom period, there are many exceptions. One can still find a bargain here and there. But, generally, it makes for bad public policy to base planning decisions on the exceptions rather than the rule. ■

COMMUNITY CONNECTIONS

Five Year Milestone for Youth Recognition Event

The Youth Services Bureau (YSB) of Ottawa was founded to meet the needs of children 12 years and older who require help in overcoming challenges that affect their physical and emotional well being. November 2006 will mark the fifth time the YSB has gathered to celebrate their accomplishments in doing so.

The YSB believes all young people deserve a safe and non-judgmental environment in which they are recognized as individuals and allowed to work towards their full potential. We assist by offering a broad range of services, including family and individual counselling, non-profit housing, shelters, youth employment services, drop-in resource centres, and telephone and mobile crisis intervention.

Our annual Youth Recognition Event celebrates those who have overcome extraordinary challenges on the path of personal evolution. Youth who are recognized receive a medal inscribed with their name and accomplishment, a gift certificate, a certificate of

recognition and an invitation, with family and friends, to an awards banquet.

Metro Suburban is pleased to have assisted the Youth Services Bureau with finding its new home at 2675 Queensview Drive.

If you would like to join the members of the community who assist with the cost of the event, a donation can be made to the Youth Services Bureau. Please forward cheques to the Youth Services Bureau of Ottawa, attention Youth Recognition Event at 1338 1/2 Wellington St., Ottawa, Ontario K1Y 3B7. For more information, please contact Sarah Villani at svillani@ysb.on.ca or 613-729-0577 Ext. 229. ■

METRO TRENDS

Construction Snapshot

Non-residential construction investment (building activity) continues to rise nationally. Statistics Canada data shows a 13.7% increase from 4th quarter 2004 to 4th quarter 2005. British Columbia with a 45.1% increase leads provincially, followed by Alberta with 38.9% and Saskatchewan with 24.2%.

Measured by city, Ottawa-Gatineau increased by 19.8% during that same time, while Montreal decreased by 1.4%. Calgary's increase led the pack at 39.4%, with Toronto at a steady 5.6%.

A glance at the numbers illustrates just how hot the market in western Canada continues to be. Although the increase in Ontario appears modest, it must be remembered that this one province represents over 40% of all non-residential building construction investment nationally.

Metro Suburban publishes Working Spaces twice a year. Please help us keep our database accurate. If you have a change of address, change of contact person or wish to be removed from our mailing list, simply contact us by phone at 723-2222, Ext. 221 or by email to cferguson@metro-sub.com



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