



Chair's Column
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Building up St. John's

The Board of Trade has been engaged in discussions with City officials, heritage advocates and others in the community on the issue of development within St. John's for a number of months now. We have discovered that we have a lot in common – we all want a beautiful city where people can thrive. We also share a belief that this can be achieved without public acrimony or a city divided. Part of the path to accomplishing this is to look at facts and make sure we have good information available.

In the process of researching and consulting, the Board decided to examine, based on expert input, if a new class A building could be economically developed in downtown St. John's under current heritage guidelines. In particular, we wanted to look at the height restriction of 15 meters.

The Board put together a plan of the economics of building a 'hypothetical' building, but also tested this analysis against proposals that have been made public by developers in St. John's. The purpose was solely to determine if a 15 metre building could break even or make a profit. Here's what we did.

Local commercial property professionals were engaged to advise on the construction of a 15 metre 5,000 square metre Class A office building with underground parking. We wanted to be as realistic as possible, and not add to downtown parking problems. The estimated cost to build is \$14 million and the estimated market value is \$11.5 million. That is a \$2.5 million loss that doesn't even include the cost of purchasing land or carrying costs during construction.

The Board engaged a well respected cost control and planning experts, to cost-estimate a building of 534,000 square feet, or 5,000 square metres in total. A basement area parking garage of 1,000 square metres, accessible from the back and one side, would be in place. First floor retail space, divided into two spaces, with washrooms would be built; however, the space would not be painted and no flooring or anything other finishings be put in place. The three upper floors are finished Class 'A' office/retail space. The exterior is a combination of brick, glazing and composite metal while the interior consists of electric heat with heat recovery, air conditioning, ventilation and sprinkler system. The estimate includes demolition of \$150,000.

An experienced real estate appraiser/advisor estimated the market value of this property. The calculation was based on an optimistic scenario, assuming that the building exists (taking construction time and carrying costs out of the equation), that the building is leased at \$28/square foot (\$300/square metre), net (i.e. rent paid to the owner after costs are recovered), and that up to five per cent of rentable space is unoccupied over the investment period.

The building would take two years to build and up to three years after that to fully lease. This results in carrying and non-recoverable operating costs over and above the \$2.5 million loss, in addition to costs such as land purchase and contingencies. On a \$14 million building, a \$2.5 million loss is very significant.

That is the theory. In practice, we have all seen developers consistently submit projects that exceed 15 meters, supporting the concept that land purchase, construction costs, financing and carrying costs are such that building less than 15 meters high is not economically viable. The rationale for developers consistently proposing taller buildings may be that a new build and or renovation is only economically viable at a greater density.

We can have a downtown with better public transit and modern eco-friendly buildings that house people who share ideas by being closer together while contributing to a sustainable knowledge-based economy. We can have one that respects public view planes, context, historical character and architectural creativity.

But it is up to us to make that happen and it only will if we create the right environment and conditions. And one step is acknowledging that if the numbers don't add up, perhaps good projects won't happen. And if those good projects don't happen, we all lose out.

The Board of Trade wants a functional, vibrant, progressive downtown that celebrates our heritage, acknowledges the challenges of our present, and builds toward a better future for our community. There is no reason why we can't achieve this. It's just a matter of how we do it collectively.