

Goodman R E P O R T

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In shaky times, a B.C. city centres itself: In Surrey, cheaper land, a quick SkyTrain ride from downtown Vancouver keep development wheels spinning

Peter Mitham, The Globe and Mail

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SURREY, B.C. -- With fire and financial disasters having hit its residential projects in recent months, Surrey's central district would seem to be teetering on the edge.

Commercial developments continue to proceed, however, thanks to lower land costs and transportation infrastructure in the fastest-growing municipality in British Columbia's Lower Mainland.

Toronto-based Blackwood Partners Inc. was bullish enough that it paid \$245.8-million in 2007 for the landmark Central City complex in Surrey's City Centre area, a project originally built for the province on a site that still has development potential.

Just east of Central City, Berezan Management Ltd. of Langley, B.C., has announced plans for a \$1.6-billion complex boasting four million square feet, including a 55-storey office and hotel complex, and four residential towers atop a retail and entertainment centre.

To the west, Dundee Real Estate Investment Trust and General Electric Co.'s GE Real Estate, both of Toronto, have plans for 650,000 square feet of office space in a four-tower development, including 400,000 square feet of residential. The first office tower could be up by 2010.

The backbone of the various projects is rapid transit - the 22-year-old SkyTrain line that runs from the Vancouver waterfront across the Fraser River to Surrey. An anchor for residential development in the past, it's now seen as an impetus for the redevelopment of the City Centre area, long known as the notorious Whalley neighbourhood. A synonym for crime and a lack of urban sophistication, Whalley forms part of an area adjacent to SkyTrain that regional planners have tagged for Metro Vancouver's second urban core, a 45-minute transit ride from downtown Vancouver.

The dreams are being realized. The final three stations of the SkyTrain line serving Surrey's City Centre are hubs for commercial development. Surrey is reviewing more than 53 applications for development in the City Centre area, 12 of which have significant commercial components.

"Private developers are now coming into Surrey as GE has done," said Darrell Hurst, principal of Corporate Real Estate Advisory Services with Avison Young (Canada) Inc. in Vancouver, and one of the brokers handling leasing for the GE/Dundee project adjacent to the Gateway SkyTrain station.

Mr. Hurst said the time that's required to commute into Vancouver from Surrey and Langley, a further 20 kilometres to the east, makes Surrey attractive to office developers, because its central location is increasingly accessible by transit. (The province plans to extend SkyTrain to Langley, among other service improvements.) And, while major office projects in downtown Vancouver are on hold because landlords can't secure the base rents exceeding \$45 a square foot that would make them viable, commercial projects in Burnaby and Surrey continue to move forward.

The land is cheap, allowing rents to be as much as \$10 to \$15 a square foot less than in downtown Vancouver, and the transit connections are appealing as gas prices rise.

Mr. Hurst points to Burnaby as a harbinger of what's taking shape in Surrey. "It's tripled in size in the last 10 to 15 years and it's certainly outgrown, in terms of office space, the downtown core," Mr. Hurst said. "There's been more office space development in Burnaby over the last 10 years than there has in the downtown core [in Vancouver]. We see that continuing."

Highlighting transit's role in Surrey's development plans is the fact that the area around Central City has surpassed

Surrey's historical business core, Guildford, as the site for new commercial development.

Central City's completion in 2002 added 1.5 million square feet of commercial space, including 875,000 square feet of office space that doubled Surrey's office inventory overnight. Billed "a triple-A building in a triple-B neighbourhood" by Insurance Corp. of British Columbia, which developed the project, the complex is almost fully leased.

City Centre has about 1.4 million square feet of office space versus Guildford's 600,000 square feet, and continues to see demand for office space of 50,000 square feet to 100,000 square feet a year.

Transit connections were fundamental to Surrey Mayor Dianne Watts' announcement that its municipal offices would relocate to the City Centre area. They're currently located nowhere close to urban amenities and require a lengthy commute for many staff. "You've got 2,000 people right now in the middle of nowhere that have to drive everywhere, so moving that to the downtown core offers [staff] opportunities," she said. "You're putting 2,000 people ... close to SkyTrain, close to the transportation corridors."

Ms. Watts adds that the area has long been designated as the next metropolitan core in Metro Vancouver's long-standing Livable Region Strategic Plan. A civic presence in the area promises to enhance the status the burgeoning commercial and residential developments are creating. A performing arts centre, regional library and other civic amenities are slated for the City Centre area.

"I just think it's really important that the City of Surrey have a presence in the city centre," Ms. Watts said. "Basically, it's building the metropolitan core and part of building that is having a civic presence there."

That's not to say that commercial projects will face a cakewalk in terms of development. David Goodman, a broker with Macdonald Commercial Real Estate Services Ltd., said the appetite for development sites in Surrey fell last fall as much as anywhere else in Metro Vancouver.

"Things are much slower, or on hold. And we're no exception," he said. "Developers really just want to stay solvent rather than look at properties."

Buyer interest in a one-acre site Mr. Goodman is listing opposite the Central City development has dropped, and he expects new construction in the area to be slower than anticipated as financing options remain limited.

"Whether it will happen or not in these times that we're living in or whether it'll be put off three or four years, who knows? It's hard to say," he said. "There's going to be many more shoes to drop before this thing is over."

John Hayes, managing director for Blackwood Partners, remains unconcerned, however. "Since acquiring Central City, the asset has performed well; we have leased more than 100,000 square feet of the vacancy we inherited on closing," he said. "Despite the troubling economic times, we still view Surrey as a significant growth area going forward."