

Catalysts: A SPECIAL SERIES: WHAT'S DRIVING GROWTH IN DIFFICULT TIMES: CONDO CONSTRUCTION

Sky-high spinoffs

A gleaming new vertical city has sprouted above Toronto's lower-scale buildings. The big question is whether all this condo construction will translate into sustainable economic growth

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For Robert Whitfield, the eureka moment occurred when he realized his store was filled with customers trapped between drywall and a hard place.

It happened about four years ago, shortly after he opened an upscale furniture store in Liberty Village, a district of warehouse lofts on the west end of Toronto's downtown. Young couples were streaming into his shop, desperate to furnish new stacked townhouses and condo apartments with minuscule master bedrooms and other "spatial challenges."

"All of 10-by-11," recalls Mr. Whitfield, the principal of Casalife Inc., of one particularly constrained floor plan. "It just didn't have room for a bed and a dresser and a tallboy. Where are you going to put your socks?"

Where indeed? Within months, he had launched a queen bed with drawers cleverly tucked underneath, and a niche market was tapped. Today, Casalife specializes in furniture tailored to the cramped confines of the high-rise condos that proliferate in the city.

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Mr. Whitfield now has several competitors and spends much of his time attending international trade shows searching for size-conscious items, such as the elusive 18-inch coffee table. "The reality is that this market is still neglected."

But there's no doubt it's a market. Indeed, Casalife's commercial success is directly attributable to Toronto's sustained condo boom, which traces its origins to some key land-use reforms made in the mid-1990s. A decade later, the market shows little sign of slowing, despite moribund real estate markets in the United States and Britain.

Between 1994 and 2007, the annual dollar value of residential building permits in the City of Toronto jumped more than three-fold, largely on the strength of the condo boom. It's as if a gleaming new vertical city has sprouted amid Toronto's lower-scale buildings.

Between 2001 and 2006, a staggering 17,000 residential units were built downtown, the vast majority of them high-rises. At the end of 2006, another 39,000 units, in 155 projects, were in the pipeline.

The result has been a remarkable 17-per-cent jump in the population of central Toronto - growth not seen since the early 1970s. Nor is the boom a downtown phenomenon: Clusters of condos have cropped up in traditionally low-rise suburban areas such as North York, Scarborough and Mississauga, with more on the way.

And the developments are growing not only in height, but also in scope. Vancouver-based Concord Adex, which is building CityPlace, a sprawling 20-building cluster near the downtown Rogers Centre, is also planning a 15-tower project on a 20-hectare former industrial site near Highway 401. To be built over the next decade, this new project is worth a staggering \$2-billion.

The key to this growth, planners and economists says, is the fact that the population of Greater Toronto jumps by about 100,000 every year. All these new residents need housing and increasingly they are choosing high-rise condos.

This rapid transformation is not without its critics, including homeowner groups upset about tall towers and downtown artists who bemoan the loss of Main Street atmosphere in areas targeted by developers.

"Pumping a lot more people into the downtown core hasn't led to balanced growth," says Toronto Councillor Adam Vaughan, whose ward has the highest concentration of condo activity.

Yet even skeptics don't deny that the immediate, local spinoffs are substantial. Condos today represent 50 per cent of all residential development activity in Greater Toronto and 80 per cent in the City of Toronto proper - a trend that puts the region sharply at odds with most North American urban areas.

The direct investment for condos built since 2001, as well as those under development, likely exceeds \$20-billion. And housing starts - whether high-rises or subdivisions - have always functioned like economic spark plugs. Between 2002 and 2007, residential construction as a proportion of GDP rose to 6.7 per cent from 5.5 per cent - a shift that has moved in lock-step with job creation, according to housing economist Will Dunning. "That's where it all comes from."

In the GTA, the most direct beneficiaries are construction workers. Mr. Dunning says \$1-million of residential construction translates into nine "person-years" of construction employment, as well as another two person-years for consultants, architects and other professionals involved in planning such projects.

The other big winners are the local suppliers of building materials. Although non-residential construction consumes a larger amount of basic materials, residential development represents "a particularly important source of demand for producers of windows and doors, kitchen cabinets, gypsum and wallboard and heating and air conditioning," according to an analysis by Canada Mortgage and Housing Corp.

The wages and purchases of materials for Toronto's 2007's condo projects, in turn, triggered about \$175-million in tax revenues. In terms of local taxes, city officials say that between 1996 and 2005, the 69,000 new condos completed in that period contributed about \$113-million annually to municipal coffers.

Then there are the secondary spinoffs - the new supermarkets, dry cleaners, convenience stores, coffee shops, houseware and hardware stores that cater to thousands of residents now living near the financial district.

Stephen Dupuis, CEO of the Building Industry and Land Development Association, says the typical new home buyer purchases about \$10,000 worth of goods after taking possession. But Mr. Whitfield, of Casalife, suspects the figure could be higher for condo residents, because of the small size of many suites: "They get their occupancy, they move in and then realize their furniture doesn't fit."

Like Casalife, many retail companies are moving to fill the needs of condo dwellers. General Electric Canada's Mabe appliance division recently launched Loft Kitchen, a collection of fashionable, small-scale appliances and stacked washers-driers suited to tiny condo kitchens. Working with developers, GE tailored the collection specifically to this market. "You need to get efficiency and space and hit the prices point," says general brand manager Philippe Meyersohn.

Unlike locally sourced construction materials, however, durable goods and appliances tend to be imported from Asia, Mexico and the United States, illustrating how the condo ripple effect can spread well beyond the GTA.

Planning consultant Barry Lyon also argues that the high-rise office boom in downtown Toronto (200 floors are currently under construction) is linked to the flourishing condo market. "A lot of the office construction wouldn't be happening were it not for the pool of highly educated technology workers the condos have brought into the city."

The big question is whether all this construction will translate into sustainable economic growth for Toronto.

Mr. Lyon, who describes himself as "a believer," says the condo boom essentially makes the city function more productively. Intensification gives rise to non-economic benefits such as more transit ridership, energy savings and greater efficiency in municipal services such as garbage handling.

Others aren't convinced. Pointing to an earlier generation of high-density towers, Councillor Vaughan says there's a risk that consumers may sour on the glut of tiny suites, leading to losses in market value and condo towers that come to be dominated by low-income tenants.

Douglas Young, co-ordinator of York University's urban studies program, points to another pressing issue: "The state of [the city's] infrastructure - physical, social and natural - is in pretty lousy shape." Yet planners continue to approve thousands of new condo units, he says. "You have these fabulous looking high-rises from a distance, but getting from them to somewhere else in the city can be a real pain in the backside."

Mr. Lyon counters that the \$20,000-to-\$30,000 per-unit fee imposed by the city (parks levies, development charges and so on) help underwrite the cost of municipal infrastructure improvements ranging from new transit service to libraries.

From his Liberty Village showroom, Rob Whitfield sees no end to the forest of condo towers rising around him, nor a lessening in demand for his products. Casalife recently opened a new outlet in Vaughan, north of Toronto, which has its own big plans to develop high-rise condos and offices in a city-centre to be served by a new subway extension. As he sees it, "I'm a bit of a pioneer."

By the numbers

\$4-billion+

Value of condo projects across Greater Toronto in 2007 alone.

80

Number of new condo projects expected to be launched
in Toronto region this year.

11,200

Number of new units started
in first seven months of 2008.

5.2%

Increase in number of building permits issued in Toronto in July, 2008, compared to June, with much of the activity in the "multi-unit residential" category.

One-third

Portion of downtown Toronto condo buildings that are 30 storeys or taller.

50,000

and 8,000

Number of doors and refrigerators, respectively, that will be needed at downtown CityPlace project.

300

Number of construction workers employed at CityPlace on a typical day.

Sources: City of Toronto; Urbanation; Building Industry and Land Development Association; Statistics Canada; CMHC; Concord Adex

DEALING WITH DEVELOPERS

In April, 2007, Toronto launched a two-year pilot project to establish a "design review panel" to buff up the city's architecture standards, especially for large-scale towers that can radically alter streetscapes and the pedestrian realm.

The move was the city's response to growing concerns among neighbourhood groups that developers are building increasingly enormous condo towers with little regard to their look, especially at grade.

But the other source of inspiration was the City of Vancouver, which has relied for years on a design review panel, comprised of architects, engineers and planners, to vet development proposals. Projects that don't pass muster go back to the proverbial drawing board.

Vancouver's design panel is just one of a series of discretionary planning policies that sharply differentiate Toronto from the West Coast metropolis. Unlike in Ontario, Vancouver developers can't appeal planning decisions to a quasi-judicial body. City planners, in turn, encounter less interference from local councillors, meaning they can fast-track applications and increase site densities while demanding more from builders in terms of benefits to the public, such as day-care centres, arts facilities and landscaping.

"Things tend to go more predictably," Robert Freedman, Toronto's head of urban design, says of the Vancouver model. "It's less convoluted and not nearly as political."

There's an even more important dividend, however. Vancouver's approach, says that city's retired planning director, Larry Beasley, has created "a neighbourhood environment at high density that consumers find very attractive because it is not just housing they are purchasing but a complete residential/neighbourhood lifestyle. This has added huge value to private market projects."

Mr. Beasley says that developers, "after a period of watching the results on their bottom lines, have now generally become happy to make contributions ... to get through the Vancouver system."

The City of Toronto is not placid when dealing with developers who want to build above existing height or density limits. It levies fees, known as "Section 37" benefits, to help offset such projects.

Since 1998, the city has collected \$48-million in Section 37 fees. The funds, another form of economic spinoff, go toward heritage protection, day care, public art and other community amenities.

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