The Land Economist

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The corner of James and Main in the core of Hamilton, may become one of the downtown success stories for the new amalgamated city. See pages 4 and 5.

Timeshare industry grows up

By Michael Cane

The timeshare industry as a whole is maturing – and growing at a rapid rate. It is also attracting the large hotel chains and developers. The economics seem to make sense for purchasers, especially for larger families. With the introduction of larger players, along with greater flexibility in vacation options, and a more professional approach to sales, the concept of timesharing now has a far better reputation and should continue to become even more popular.

Size of the Market

Over the past ten years, timeshare development has been one of the fastest growing sub markets of the vacation and real estate industries. Canada has a small but growing timeshare market. Internationally, it ranks well below the U.S. and Europe, which account for 37.3% and 28.7% of the world timeshare market, respectively. Approximately 250,000 Canadians own timeshares, of which 50% are in Canada.

There are about 100 resort and club developments in British Columbia, Alberta, Manitoba, Ontario and Quebec. About 40 have active sales programs. Intrawest is a major player together with Shell Group (with head-quarters in Ontario), Fairmont Vacation Villas, and Worldmark, a branch of Trend West.

Comparison with Hotel Accommodation

Timeshare is, when all said and done, just a method of pre-paying your future vacations. You use the fully furnished accommodation as and when you need it. Not like the summer cottage, which you are responsible for year round and use for only a small part of the year. Unlike hotel accommodation, the price of the timeshare unit is not subject to inflation.

For example, we took the cost of a package vacation in Nassau, Bahamas, including return flight from Toronto and accommodation only in a four-star hotel for a family of four, and compared it with the cost of flights alone and the annual time-share condominium maintenance costs. The difference is estimated at $3,157 for the first year.

Assuming an inflation rate of 3% per annum on all items, the present value of the annual savings over 10 years, discounted at 10%, is estimated at $23,900.

According to a survey published by the American Resort Developers Association, the average price of a one-week annual interval in a two-bedroom timeshare unit in the US in 1999 was $14,584. Therefore, there can be a definite saving over hotel accommodation.

The economic benefits are especially relevant to family groups, since the larger time share units can accommodate up to 8 people. There may be additional savings in food costs as all units have fully equipped kitchens or kitchenettes. Booking flights well in advance can also cut costs.

Purchase options

Fee timesharing conveys an interest in real property with the right to sell, lease or bequeath the interest.

Non-fee timesharing typically conveys only the right to use a unit and related premises. However, purchasers are still able to sell or gift their remaining interest. There are three main types: leasehold interest, vacation licence and club membership.

Costs and value

As might be expected, the resale value of a timeshare is much lower than the purchase price – although, over time, the prices will generally increase. A recent study indicated that the resale price of a timeshare unit associated with large hotel/ timeshare chains, which offer a greater variety of amenities, would maintain a higher value.

The vast majority of projects offer financing for terms of up to 10 years at surprisingly high rates of between 13%-16%, with down payments as low as 10%. It is reported that about 75% of purchasers take advantage of financing.

Marketing and sales costs for timeshare developments can be as high as 40-55%. Included in these costs are subsidized tours to and accommodation at the property, gifts, referrals, telemarketing, direct mail and Off Premises Contacts (OPCs). The OPC is the person you may bump into while

Timeshare versus Hotel Accommodation

Year	1	2	3	4	5	6	7	8	9	10	Total
Inflation at 3.0%											
Air fare/hotel pkg	5984	6164	6348	6539	6735	6937	7145	7360	7580	7808	$68,600
Airfare	2407	2479	2554	2630	2709	2790	2874	2960	3049	3141	$27,594
timeshare maintenance	420	433	446	459	473	487	502	517	532	648	$ 4,815
Annual savings	3157	3252	3349	3450	3553	3660	3770	3883	3999	4119	$36,191
PV annual savings	**$23,906**										

Sandyport Beaches Timeshare Resort, Nassau, Bahamas

on vacation, who persuades you to visit a timeshare development for a "no-obligation" visit.

High pressure sales techniques have given timeshare a poor reputation in the past. However, the industry is attempting to improve levels of training and accreditation of sales and resort management staff. There are two recognized associations in North America: American Resort Development Association (ARDA) and the Canadian Resort Development Association (CRDA). Both organizations are assisting the industry by providing training sessions, conferences and by developing Codes of Ethics.

Two-unit suite popular

A typical modern suite is a combination of two adjoining units, which can be separated or combined. The larger one bedroom unit would accommodate up to four. The smaller unit would accommodate two.

This gives purchasers greater flexibility of choice. For instance, if they own two weeks, they can reserve the two-unit suite for one week, or reserve the one-bedroom unit for a week and the studio unit for a second week.

Alternatively, they may use one unit for a week and exchange the other unit with someone else.

Exchange programs

Most timeshare resorts are linked with two major exchange networks: Resort Condominium International (RCI) or Interval International. For a small fee, a timeshare owner can register his week with the development's affiliated exchange company and spend his/her vacation in another resort. The range of choices depends upon the size of the unit, its location, the season, and demand.

Originally, a purchaser of a timeshare week had the same "Fixed Week" every year. However, gaining popularity is the "Floating Week."

Rather than specific time periods, some of the larger hotel and timeshare chains sell "Points" which can be used in their other locations, or for other services and benefits.

Conclusions

With new players, new maturity and flexible options, timesharing will continue to grow in popularity, both in Canada and around the world.

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New Offices

As many of you are aware, the Association of Ontario Land Economists has moved to a new office location at 1235 Bay Street, Suite 500, Toronto, Ontario, Canada, M5R 3K4. Phone: 416-934-5166.

We also have a new person handling accounts, Shannon Bell, who came to us with excellent credentials. Over the coming months, Shannon or one of her assistants will be contacting you to confirm your current address, phone number, etc. for our database. Please remember to keep us informed of any changes!

Welcome New Members!

R. Murray Clarke
Town of Bracebridge

Harold O'Krafka
Corporation of The Twp. of Wilmot

Lawrence Kotseff
Regional Municipality of Waterloo

Pat Del Sordo
Humphrey's Appraisal Services

Les Gondor
Ontario Realty Corporation

Paul Chronis
Wier & Foulds

Bryan Law
Prodigy Realty Corporation

Valdemar Nickel
Giffels Enterprises Inc.

Dan Spalvieri
Ontario Property Assessment Corporation

Kim Howe
Colliers International Realty Advisors Inc.

Sam Barbieri
Colliers International Realty Advisors Inc.

Catherine Huestis
Colliers International Realty Advisors Inc.

Mahendranath Tiwari
Colliers International Realty Advisors Inc.

Downtown struggles in the

by Kevin Antonides, B.E.S, AACI

As of January 1st, 2001, the Regional Municipality of Hamilton-Wentworth underwent an amalgamation into a one tier system creating the “New” City of Hamilton. This “New” City is made up of the former municipalities of: Hamilton, Stoney Creek, Ancaster, Dundas, Flamborough and Glanbrook. The new City Council will have difficult decisions to make as it faces the reality of a struggling downtown core.

Regional Success
Overall, the “New” city is doing quite well:

- total value of building permits for the (former) Region climbed to $480 million in 2000, a 22% increase over 1999; industrial permits were up 61%
- Hamilton International Airport set passenger and cargo record levels in 2000 and the Port of Hamilton had another strong year
- unemployment levels are still well below national average and only recently rose above the provincial average
- housing starts for Q1 2001 for the Hamilton CMA were up 11% over the same period in 2000; single family construction jumped 29% and row condominium units more than tripled
- average home price rose 3.6% over Q1 2000 to $169,158

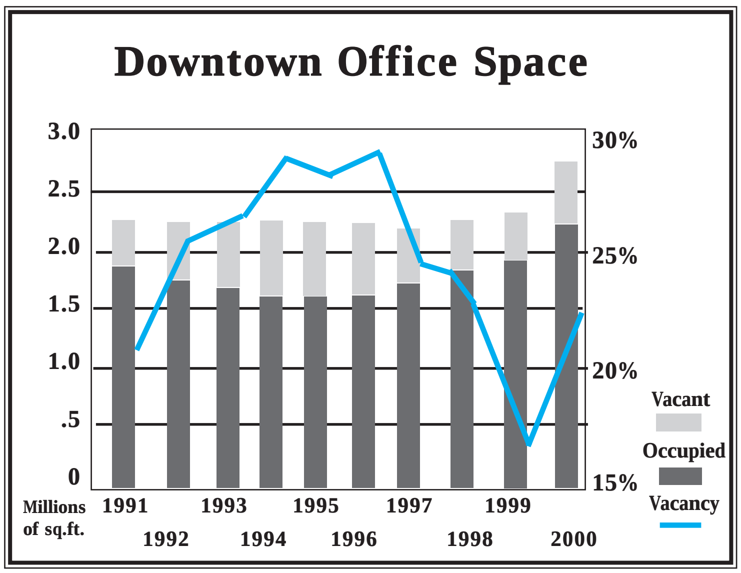
Concerns about Downtown
However, much of this growth is taking place in the suburbs. Considerable concern has been expressed about the health of Hamilton’s downtown core.

An analysis in December 2000, by the Hamilton Spectator, showed that less than 3% of the total building permit values were located in the commercial core. The exodus of head offices, competition from newer buildings in nearby areas (especially Burlington), and the centralization of operations back to Toronto over the last decade has led to chronically high office vacancy levels. Changing demographics plus the trend towards suburban shopping centers on sprawling sites with free parking have all but decimated downtown retailing. Other problems include high property taxes. The two tables, Year 2000 Property Tax Rates, and Year 2000 Sample Sale Values, illustrate the large disparities in values and taxes in the core area vs. the nearby communities.

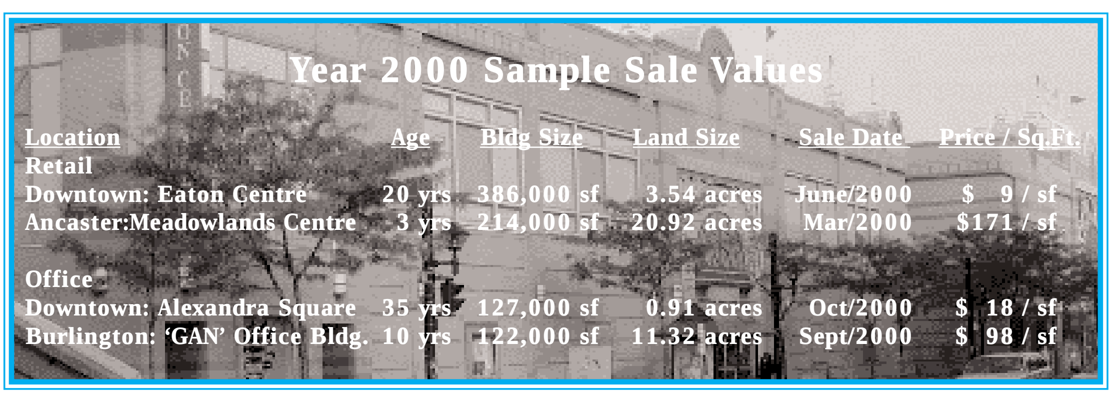
Core Office Market
There has been no new office building since the second phase of Commerce Place (21 King St. W.) in the early 1990s. In fact, the main “light at the end of the tunnel” is the current trend towards removal of functionally obsolete office space through conversion and/or demolition. The graph at centre-right illustrates vacancy rates over the past decade for downtown office space. Total supply in the downtown area has remained constant over the decade at about 2.3 million square feet, divided between Class A, B, and C space. The jump in supply for 2000 is actually misleading because of the inclusion of existing space, which was recently added to the survey. For example, the 244,871 s.f. provincially owned Ellen Fairclough

Year 2000 Property Tax Rates

Location	Commercial Office	Industrial
Hamilton (former city)	7.502715%	10.932968%
Burlington	3.517053%	5.679743%



Source: Blair Blanchard Stapleton Limited



Year 2000 Sample Sale Values

Location	Age	Bldg Size	Land Size	Sale Date	Price / Sq.Ft.
Retail					
Downtown: Eaton Centre	20 yrs	386,000 sf	3.54 acres	June/2000	$ 9 / sf
Ancaster:Meadowlands Centre	3 yrs	214,000 sf	20.92 acres	Mar/2000	$171 / sf
Office					
Downtown: Alexandra Square	35 yrs	127,000 sf	0.91 acres	Oct/2000	$ 18 / sf
Burlington: ‘GAN’ Office Bldg.	10 yrs	122,000 sf	11.32 acres	Sept/2000	$ 98 / sf

Hamilton City Centre (former Eaton Centre)

"New" City of Hamilton

Alexandra Square

Building was added to the survey (vacancy of 33,270 square feet or 13.6%). As well, 96,935 s.f. of the "Hamilton City Centre" (formerly Eaton Centre) is now included in the office inventory, of which 25% is vacant.

The decline in the vacancy rate in 1999 was due to the removal of several large buildings, such as the 127,000 s.f. Alexandra Square (to be expanded and converted to 195 upscale residential condominiums), the 61,000 s.f. Professional Arts Building (to be converted to seniors apartments), and the 54,000 s.f. Royal Bank Building (to be demolished).

Despite these statistics, the federal government recently announced its intent to construct a 240,000± s.f. building for 1,000 federal employees currently scattered among several office buildings (some owned, others leased).

City Initiatives

A recent Hamilton Spectator study analyzed 25 commercial property sales during 2000 in the downtown core. The research indicated that only one was financed by a major bank. This supports a common comment that "the banks won't put any money on the line when it comes to new downtown ventures". This means that taxpayers have had to step in as substitute bankers.

A number of developers had approached City staff with proposals to turn large commercial buildings into residential units, still a reasonably stable market in the core area. In response, City Council created a $10 million loan fund which has now been completely tapped out with several major conversion projects either approved or under way.

Other City initiatives include an "enterprise zone" in which development charges and all associated fees are waived to encourage new development. This spring, the City proposed a pilot project under which developers who upgrade buildings or put up new structures on empty land will be eligible for a nine-year break on the municipal portion of their property tax increase.

Commercial Sales Activity

Some have succeeded without government help: 25 Main St.W. for example, is a 135,000 s.f. office building acquired through a share purchase. The new owner, with aggressive leasing, local management expertise and, of course, capital infusion, has turned the building around to near full occupancy levels. The same owners have since acquired two corner landmark buildings at James and Main in the core. And Liuna has completed conversion of the former CN Station on James Street North into a banquet hall and offices.

Multi-Residential Sales Activity

Homestead Properties of Kingston have made their presence known after acquiring a portfolio of almost 1,100 units throughout the downtown in 1999. They continue to acquire select projects, including the Century 21 mixed use complex at 105 Main St.E. Bought for $10.35 million, this consists of 260 apartments and 110,000± s.f. commercial space (portions of which are to be converted to residential).

Apartment building transactions over the past 6 months have shown overall capitalization rates ranging from 8.5% (a select few) to 9.5% (more common). Strong investor demand coupled with attractive financing rates continue to push capitalization rates lower, however not as significantly as in the GTA itself, primarily due to the older building stock, and relatively low rents in the Hamilton market.

No significant upswing is forecast in rents due to a number of factors including affordable home ownership, a balanced rental market and high taxes. Vacancy levels in the core area as reported by CMHC (October, 2000) increased to 2.4% from 2.1% in 1999; whereas the Hamilton CMA average decreased from 1.9% to 1.7%

Summary

To restore the downtown core to its former prominence in the City will no doubt require bold initiatives by the development industry and property owners, with the cooperation of all levels of government.

Kevin Antonides, BES, AACI, is a Hamilton based real estate appraiser and tax consultant with Jacob Ellens and Associates.

Recent Apartment Building Transactions

Address	Sale Date	No. of Units	Sale Price / Unit
2000 Main St.W.	May/01	81	$39,198
355 Melvin Ave.	March/01	118	$34,746
235 Rebecca St.	March/01	155	$30,000
175 Hunter St. W	December/00	133	$38,120

Can Smart Growth overcome political gridlock?

By Rowena Moyes

The Association of Ontario Land Economists was very proud to cooperate with the Canadian Urban Institute and the Washington-based Urban Land Institute to present the June 13, 2001, full-day seminar "Understanding Smart Growth: Impact on Gridlock, Sprawl and Economic Growth".

Glenn Miller, OLE member and director of applied research with the Canadian Urban Institute, says Ontario's recent moves toward smart growth initiatives made the seminar really timely.

"It looks as though the government is preparing to create a broader framework for policy action," he explained.

Backed by public

"If media reports are accurate, the public is ready to get behind government action that creates a balance on development pressures — and brings financial reality to bear on policy." There are many competing interests, but the smart growth movement is a tremendous opportunity to "get all of them working together on a common goal".

Media coverage of the full-day event spotlighted some of the main issues, particularly the controversy over funding and authority for transportation.

Transit is a key element in the smart growth philosophy — which promotes concentrated growth in urban/suburban nodes, and improved mass transit to reduce stress on the environment and alleviate gridlock and global warming.

William Millar, president of the American Public Transportation Association, grabbed newspaper and broadcast attention with his claim that a renaissance in funding in the U.S. has put that country far ahead of Canada in public transit.

For example, in a June 14 article titled "TTC no longer model for U.S., conference told", Toronto Star reporter Jennifer Lewington quoted Millar as saying: "We in the U.S. used to look north for some of the best ideas in transportation: At one point it looked like Toronto had the best transit system in North America. I wish I could tell you that is true today. That is not."

The U.S. only revived its support in the 1990s, but this year the federal government will spend $6.3 billion on transit equipment and other infrastructure across America, two-thirds of it paid for through three cents of an 18-cent federal gas tax. Meanwhile, Lewington wrote, Toronto region politicians and officials have to try to wring funds from upper governments

Decision delayed

The Greater Toronto Services Board (GTSB) has asked the province for the funding and authority to create an overall transportation policy for the region.

Municipal Affairs Minister Chris Hodgson was widely expected to give the Board an answer this summer — but now has delayed any decision until the fall, when the province's six-month study/freeze on Oak Ridges Moraine development applications concludes (November 17), and its smart growth public consultations and related reports are completed. At this seminar, Hodgson stayed away from any answers on transportation planning authority.

A June 15 article, "Smart growth: old wine new bottles?" in Toronto's urban issues newsletter, Novae Res Urbis, reported that the province seems to be torn on this issue. Support for the GTSB proposal "came primarily from Toronto members, as well as those from the more mature area municipalities, including Mississauga and Oshawa.

However, three of the regional governments, Durham, York and Peel, and most of the rural municipalities have resisted the move, charging it will result in Toronto-centred growth and spending. As well, some developers have been urging the province not to give the GTSB growth management authority, calling the approach 'anti-growth'."

The Toronto Starís David Lewis Stein weighed in with his June 14 article: "Hodgson stalling on smart growth". That piece stated that the fact the Minister had no answers for the GTSB by this time — and the lack of real confrontation from GTSB chair

Gross Domestic Product

Year	US	Canada
1997	na	4.4%
1998	4.4%	3.3%
1999	4.2%	4.5%
2000	5.0%	5.0%
2001	1.8%	2.2%
2002	3.0%	2.8%

Cdn economy strong, but lags US by 6 months

Back at the April 4 dinner meeting, well-known economist and President of Economap Inc., Maureen Farrow alerted members to the upcoming crunch in the Canadian and US economies. She identified the slide that was taking place in the real GDP of the US and the concurrent but temporary buoyancy for Canada's economy.

Farrow also showed why weaker GDPs for both countries can be expected into 2002.

Notice of demise greatly exaggerated

By Keith Hobcraft

For some time now obsolescence of the retail outlet has been predicted by promoters of the "new economy" and much of the media.

Strip stores, malls, big boxes — all would go! A power centre would be merely something you plugged your laptop into. Regional malls might become baseball parks. The brave new world of virtual reality shopping was here (well, nearly).

What would real estate professionals do in a world that no longer needed retail stores?

Strangely, however, retail store sales kept up pretty well, while online retailers disappeared in droves.

Recently a major online retailer announced it was looking for a "bricks and mortar" partner.

Servers, it seems, still have greater success when they are behind a counter.

Keith Hobcraft is president of Bosley Farr Associates Ltd. and publisher of The Land Economist Journal.

Gordon Chong during this seminar — are very worrying. "The fear grows that the Harrisites are conducting two levels of consultation on smart growth — one with the public and the other with power brokers in back rooms." He pointed to public concern over traffic, development, and issues such as the Moraine, and concluded that people really care: "This government had better deliver."

Government funding is key

Janice Walls of the Daily Commercial News produced several articles. In "Ottawa, Queen's Park key to easing gridlock" (June 15), Walls identified "political gridlock" as the speakers' key issue at the conference. "One after another, they presented plans to address congestion problems and, one after another, they said transit and highway funding from the federal and provincial governments is the key," she wrote.

Chong certainly had some comments, even if they weren't the fireworks Lewis Stein was expecting. "What we see is Ottawa and Queen's Park playing 'show me yours first'," Walls' article quotes him as saying. "Maybe that was cute when we were kids, but it's not cute now."

In a subsequent article, "GTA growth closing on Niagara, Barrie: planner" (June 18), Walls quoted Melanie Hare of Urban Strategies calling for recognition of growth pressures estimated at 100,000 people per year in the GTA. "No urban boundary alone will ever hold that tide back," she is reported as saying.

Once people realize that Toronto could easily merge with Barrie, Waterloo and Niagara within our lifetimes, it becomes possible to come up with a realistic 50-year growth management plan, with new funding and tools. The alternative, Hare said, seems to be sprawling without direction and losing the battle, subdivision by subdivision.

Concern about emphasis

OLE education chair Allan Windrem, who is also head of asset and real estate planning for Dillon Consulting Ltd., says the seminar was an excellent overview of current problems and opportunities.

"One thing does concern me. While we are placing greater emphasis on transit as an alternative for people, we face a considerable challenge in actually getting people out of their cars. Also, transit, as one speaker said, 'cannot be a social service'. It must be convenient, seamless and operated efficiently to serve as a viable alternative to the automobile."

The final seminar in the series, "Understanding Smart Growth: Programs for 21st Century Cities", will be held on September 20. See www.canurb.com or http://www.aole.org.

Rowena Moyes is a Toronto writer and communications consultant, and editor of this journal.

The Legislative Beat

by Andy Manahan PLE

Smart Growth
In the Fall 2000 column, I reported that lawyer Bob Onyschuk was advocating that the Smart Growth planning concept be adopted in Ontario. Smart Growth has subsequently received priority status by the Premier. At the Toronto Real Estate Board's AGM on Jan. 31, for example, he stated that if growth isn't planned properly there will be higher infra-structure costs and less green space. A number of government announcements have fallen under the Smart Growth umbrella since that time (see below).

The Ministry of Municipal Affairs and Housing describes smart growth as "encouraging better choices about how we grow by linking decisions on transportation, land use, public investment, economic development, the environment and resources." This spring, the Hon. Chris Hodgson launched a province-wide consultation in 17 centres to hear views on how the government could make strategic decisions on promoting and managing growth.

Oak Ridges Moraine
As part of the Smart Growth strategy announcement made on May 17, the Province imposed a six-month freeze on development on the Moraine for all new projects that require official plan, zoning by-law or subdivision approval. The moratorium also applies to applications before a municipal council or the OMB. As word of this freeze was made the day of the Urban Development Institute's annual dinner, there was considerable buzz about the unprecedented nature of this announcement and how the year-long OMB hearings were suspended in Richmond Hill.

The Federation of Ontario Naturalists and other conservation groups have proposed a greenway to protect the ecological integrity and rural character of the landscape.

Brownfields
Another element in the Smart Growth announcement concerned the Minister's intent to provide clear rules for the clean-up of contaminated brownfield sites. A key provision to ensure reinvestment in these sites revolves around liability protection from future environmental orders for municipalities, lenders, owners and developers involved with these properties. The Province hopes to ensure that brownfield applications are expedited through the planning process.

Housing Supply Working Group
The Interim Report of the working group was released on May 8th. At the press release, the Hon. Chris Hodgson announced that the government would immediately act on one of the recommendations: to amend the Municipal Act to allow municipalities to enter into agreements with private builders which would result in a direct or indirect financial benefit (e.g., donated land, reduced charges or fees).

A companion study comparing several U.S. markets was also released by the HSWG. Major findings demonstrated that federal tax rules relating to the treatment of capital gains and depreciation appear to be the most significant factors driving down returns in Ontario.

The Provincial Budget the next day contained an additional provision that the HSWG had asked for. Effective Jan. 1, 2002, the time horizon for the new multi-residential tax class will be extended from eight to 35 years. This tax class was created in 1998 to enable municipalities to apply a lower property tax rate to newly constructed rental apartment buildings. The eight-year "tax cliff" was viewed by investors as being too risky.

Another change announced in the Budget, effective Jan. 1, 2002, is the increase to the capital tax exemption from $2 million to $5 million. New Finance Minister and Deputy Premier, the Hon. Jim Flaherty, stated that this is "the first step towards eliminating the capital tax."

The Minister also announced that changes would be made to the Ontario Property Assessment Corporation and the assessment process itself, based on a review chaired by MPP Marcel Beaubien. Among the review's 19 recommendations is the suggestion that the province "consider mandating a reduction of the multi-residential tax rate down to the residential tax rate."

Education Charges Reviewed
The Hon. Janet Ecker, Minister of Education, has asked that a review be conducted of regulations surrounding education development charges. EDCs are charges on new residential and non-residential development to fund school site acquisition. (Prior to the Province taking over responsibility for education funding, EDCs also covered new school construction costs related to growth).

The Toronto Catholic District School Board's most recent EDC bylaw was one reason for the review. It imposes a residential charge of $1,236 per unit, regardless of unit type or size. Building industry representatives complained that this flat charge unfairly penalizes condominium projects that generate fewer pupils than single family housing does. An alignment with municipal development charges where there is differentiation by unit type, therefore, will be a major item under review.

Andy Manahan is Development Promotion Representative, Universal Workers Union, Local 183