

OPINION

Bold visions at mercy of market forces

Designs impact Calgary's future

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FOR THE CALGARY HERALD

During the past two years, Calgary's residential real estate market has been, well, crazy.

Housing construction starts have been in the stratosphere, surpassed only by skyrocketing price increases.

While homeowners across the region are busy counting their new-found wealth, we wonder what a rapid increase in starts, combined with skyrocketing prices, means for urban design?

For one thing, hot markets always bring more players to an industry, increasing the array of new ideas and new approaches.

This can be a benefit to urban design because new developers are not bound by "the old ways" of suburban sprawl that have dominated our urban growth for the past generation.

On the other hand, hot markets shift the focus from design and quality to production and speed.

In heady economic times, buyers will buy just about anything and are only interested in the basics of value, translated in terms of size and delivery date.

However, in slow markets, developers and builders must differentiate their product and offer something distinct and unique to attract buyers.

Still, one would assume that with all that extra money from higher-priced homes, there would be plenty of surplus funds within the industry to fuel more innovation.

Logically, yes, but there is a curious counter-intuitive twist to this plot.

Rapid price increases do not always mean higher profit margins for developers and builders.

The problem is that the builders' costs are also rising — and in some cases, they are rising faster than the finished price of a home.

Statistics Canada tracks this information, and reports that the overall cost increase for construction from the start of 2004 to mid-2007 was higher than the increased price of a finished home.

This would suggest that the profit margin for homebuilders has been shrinking — which would be the case if not for slower increases in undeveloped land values, again according to Statistics Canada.

In other words, more rapid construction cost increases have been

offset by slower land cost increases, permitting builders and developers to reap higher profits. The problem is that this is likely only a temporary situation as newer projects are being built on land that has a more current and higher cost base.

If finished home prices don't continue to skyrocket, then profit margins will be squeezed, and all that added money will be sifted through the hands of the entire supply chain (from homeowners to builders to land owners to tradespeople and so on).

It's a shell game, which sadly is predictable, and the primary reason why economists are so paranoid about inflation. The economic gains are often short-lived and, to a degree, false.

If profit margins do shrink, the most likely reaction is for builders and developers to cut back on what they perceive as "extras." We plead for the list of these so-called extras not include urban design, which should always be an integral part of the development plan.

Ironically, a focus on effective urban design and creating vibrant public places will be a key differentiator in the future, so myopic developers and builders who are thinking about where to save should instead think about how they can differentiate their product in the future.

Fortunately, in the heat of our recent up-market, many large developers started to think more about their long-term landholdings, resulting in "big thinking" by many industry leaders, giving them a leg up on their competition.

This includes bold initiatives such as Mahogany, the Villages of Walden, Harmony, and Currie Barracks.

But these bold moves are constantly at the mercy of market conditions, and with a devastating real estate market slump across much of the U.S., we worry.

While these new proposals hold promise for dramatic changes to the way we grow in Calgary, we hope and pray that these proponents will not buckle under the pressure of lower sales volumes and continued high construction costs.

The key is to keep focused on the most elemental component of effective urban design.

Block patterns and street design are some of the most permanent elements of the city form, and they have



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Rapid increases in housing construction in Calgary have been surpassed only by price increases.

to be gotten right the first time.

So, even if the initial cost is higher, the benefits will be there for many generations to come, and this heady economic climate will actually leave a lasting legacy that Calgary will be proud of.

The alternative is just too negative to contemplate.



Dean Bicknell, Calgary Herald

Public green space within Garrison Square in Garrison Woods.

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