

Trend of Highest Value in Real Estate

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Determination of Factors in Value of Central Business Property and Their Application to the Business Districts of the City.

THE rapid rise of prices of Real Estate in Vancouver during the last ten years has led to a suspension of the ordinary rules of arriving at the true present value of a given property. The tendency has been to discount the future, and until the commencement of the present period of depression, this has been done more or less equally by vendor and purchaser, and by borrower and lender in the case of mortgages. It might be said that the values have been substantiated by the fact that high prices have been paid by people who have been here a long time and know all about the conditions. It might be argued that a thing is really worth what it will sell for in an open market, and the assessment of property for purposes of municipal taxation appears in many cases to have been made with this theory in mind. This, however, is only true of a market continuously open, admitting the possibility of fluctuation. Periods of depression in the Real Estate market, however, following a period of inflation are liable to cause a cessation of sales or a drop in prices which is not justified by the fundamental conditions and is the result of unwise speculation. So far, in Vancouver, instances of sales or offerings at greatly reduced prices have been exceptional and have not occurred in the case of high priced property on established thoroughfares, nor in the residential parts of the city which have been free from the pretence of becoming "business streets."

Many owners of property, however, are inclined to reconsider their opinions as to the value of their holdings. In the absence of recent sales in the neighborhood to form a basis of comparison, one naturally reverts to the only reasonable method of valuation, which is based on revenue, actual or potential.

At the present time great care is required in practising this method, because a great many rentals have been reduced to enable tenants to cope with the depression in businesses of all kinds. This we hope, and have a right to assume, is only temporary, because the commercial history of Canada has shown regular fluctuations in the volume of business. It would be fair, therefore, to base values on an average rental which in turn should be based on an average turnover calculated for a period of five or seven years.

In calculating values of land upon the basis of revenue, a good many things have to be taken into consideration. The most important is the rate of interest which it is reasonable to expect, and this depends upon the stability or permanence of the neighborhood. As the security of the investment declines from the position of absolute safety the rate of interest should of course be higher and capital values less, just as in dealing with stocks and bonds.

Then one has to take into account the character of the building erected or proposed, that is to say, whether it is a permanent structure of several storeys or a "taxpayer" of small value in comparison with the land. Even in the highest priced localities an owner does not expect a full rate of interest from a small building. As a result we generally find that the cost of a small building is ignored in valuing a property in the central part of the city, the values being that of the land only. A building which develops the possibilities of the land more or less fully cannot be ignored, and its cost has to be added to the land value. The revenue of a full sized building forms the basis of value of its own site and adjoining sites even if the latter are vacant.

In considering the rentals which it is possible to obtain by full development of a property the probable demand for renting space and the size and character of existing buildings must be reckoned with. When there is a tendency for the supply to exceed the demand by overbuilding, each additional building of full size would tend for the time being to lower the value of all the land in the neighborhood in proportion. The rate of interest required should remain constant and the net possible revenue would be reduced by excess of competition and the consequent lower rentals and enlarged percentage of vacancies. This tendency would be offset in course of time by an increase in the population of the city or by concentration of business in the district.

The concentration of traffic is of course the secret of the safety of an investment in property situated in the heart of a city. This has been emphasized in Vancouver during the recent period of depression, when the merchants of the central business quarter have been able to draw suburban residents away from local shopping, by reductions in the prices of commodities made possible by the greater volume of business. The local merchant is not able to compete on equal terms, and in dull times therefore he is the first to suffer. A landlord may have to reduce his rents in the central district, but may lose his tenant altogether in the suburbs.

It is not always safe to designate any portion of a city as its permanent centre while there is a possibility of geographical development. Substantial office buildings, bank buildings, and to a lesser degree Government buildings, will of course anchor business in a financial district if in sufficient number. A progressive policy on the part of landlords in keeping their buildings up-to-date and attractive will preserve and build up a retail shop district.

The retail or shopping centre of a city is more subject to shifting than the financial centre. Owners who wish to hold the former in the neighborhood where their property is situated must combat this tendency by keeping their buildings up-to-date, especially in the shop front, which is the most important part of a retail store; vacant lots must be built upon; and above all in fixing rents the competition of rival districts must be remembered, because a concerted move on the part of merchants may draw business away to a new locality.

Cordova street was originally the natural centre of Vancouver in its earlier stages, but the rapid increase of population and the demand for more and better shops led to building on Hastings street. The growth of residential districts was to the east and south and west, and Cordova street, with only one thoroughfare between it and the harbor, was therefore the farthest removed from any of these. Hastings street was at that time obviously the most suitable location for retail shopping because it was the nearest through street connecting the east and west ends of the city. In one sense it was the only through street. The street car route on Cordova street instead of going right on to Granville street turned into Hastings street at Cambie street; the old Courthouse at the same point was a powerful magnet; on the south Pender street was obstructed by the Oriental quarter; beyond that is False Creek. Hastings street therefore was, as it were, the neck of a bottle, the only passage.

With this advantage it is not surprising that Hastings street between Carrall street and Granville street established itself very strongly, and perhaps permanently, as the most valuable thoroughfare from a Real Estate point of view. As the connecting link from east to west it has nothing to fear from Cordova or Pender streets. The former is too near the waterfront for high class retail business, and the grade of Pender street prevents it from becoming a serious competitor.

During the last four or five years the development of the residential districts to the south and west has opened up the possibilities of Granville street as a first class retail shopping neighborhood, especially between Hastings and Georgia streets.

In an Easterly direction Main street (formerly Westminster Avenue) has not succeeded as well for several reasons: its distance from the centre, the less desirable nature of the neighborhood as a residential district, and the larger proportion in the east end of "neighborhood stores" and local centres.

No one will deny that the present centre of the city is at the junction of Hastings street and Granville street and that its sphere of influence extends along Hastings street eastward to Carrall street and along Granville street southward to Georgia street. Good evidence of this is found in the fact that the value of land on these streets within the limits named is practically uniform, although if there is a slight variation it is in favor of Hastings street.

The increase in the population of Vancouver and the corresponding growth of its commerce is gradually causing a change in the aspect of the central district. As a city becomes larger the inevitable concentration of business leads to the erection of large