

UNDERSTANDING DEVELOPER'S DECISION-MAKING IN THE REGION OF WATERLOO

SUMMARY OF RESULTS

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PURPOSE OF RESEARCH

- To analyze the behaviours and decision-making of developers in the Region of Waterloo (Region)
- Research will be used to build a location-specific model of developer behaviour and the basis to compare developers' behaviour pre-and-post implementation of a planned light rail transit (LRT) system

METHODOLOGY

- Conducted 18 interviews with land developers, of which 1 developer focused on non-residential development and has been excluded from certain sections of the surveys related to residential developers
- Connections were established with the help of our research partners at the City of Kitchener, City of Waterloo, Region of Waterloo and real estate network

RESULTS

Part A: Firm's Characteristics

Firm's Statistics

- 10/17 firms have been in the industry for > 20 years
- All 17 firms are involved in land development, 16/17 are also involved in building and construction, 14/17 are involved in property management and real estate investment
- 10/17 firms have < 25 employees
- 13/17 firms have headquarters located in the Region
- 13/17 firms have over 75% of their projects in the Region of Waterloo

Real Estate Sector Trends

- 6 firms specialize in residential-only developments, while the rest focus on some commercial and mixed-use developments
- Real Estate Sector is shifting towards mixed-use developments due to more infill opportunities, less greenfield opportunities, demand for greater commercial uses and changes to company's business strategy
- Some developers are interested in combining retail, residential and office uses all in one development

Built Form Trends

- 4 firms specialize in low-rise developments (1-3 storeys), 2 firms specialize in mid-rise (4-11 storeys) developments, and the remaining firms

have a combination of low-, mid-, and/or high-rise developments in their current portfolio

- Built form is shifting away from low-rise to high-rise due to increasing prices of greenfield lands (greater incentive to build higher density developments to achieve economies of scale), density targets established by municipalities, and changes to firm's business strategy

Target Market

Developers identified their general target market(s) [students, young professionals, families, empty nesters] and tenure(s) [own, rent] for various housing types that are applicable to their firm's development. The number in bracket indicates the number of responses. The top responses are noted below:

- Single Detached: Families (own) [8], Empty Nesters (own) [6], Young Professionals [3]
- Semi-Detached: Families (own) [3]
- Row Housing: (all target markets were ranked relatively equally)
- Mid-Rise Apartment: Young Professionals (rent) [5] and (own) [4], Empty Nesters (rent) [5] and (own) [3], families (rent) [3]
- High-Rise Apartment: Young Professionals (rent) [5] and (rent) [3], Empty Nesters (rent) [3]
- Some developers are interested in multiple target markets for their mid/high-rise developments e.g. families, empty nesters and young professionals

Student Housing Trends

- Lack of interest to develop in and within the vicinity of the Northdale Neighbourhood as developers claim that this area is over-saturated
- Multiple student housing developers indicated that they would be interested in changing their portfolio of work e.g. move towards high-rise developments, change their target market to young professionals or move into a market outside of the City of Waterloo.

Housing Size Trends

- Developers said that the size of their developments are becoming smaller in order to make new housing more affordable for buyers, meet density requirements, and cater towards the demands of the market (e.g. changes to lifestyle preferences-empty nesters who are looking to downsize)
- One developer noted that size distribution also varies depending on the location (e.g. Waterloo market generally demands larger units and are willing to spend more compared to the Kitchener market)
- Upcoming mid- and high-rise developments aim to have smaller, space-efficient units

Development Trends (Greenfield, Infill, Brownfield)

- General trend shows that developers (including greenfield developers) are moving towards infill/brownfield developments due to lack of land availability and policies limiting greenfield development
- Most of the firms are not opposed to brownfield developments (contaminated lands), but rather, sites will have to be carefully assessed to analyze the feasibility of the remediation efforts prior to committing to a project

Spatial Distribution Trends

- Greater interest in developing in the Central Transit Corridor and Built-up Areas within the Region of Waterloo, shifting away from Urban Designated Greenfield Areas and the Northdale Neighbourhood
- Developers noted that certain LRT stations and areas are more attractive, referring to the area of the Central Transit Corridor between Uptown Waterloo and Downtown Kitchener
- Some developers stated that they prefer to develop in the City of Kitchener compared to Waterloo and Cambridge due to incentives e.g. DC exemptions

Part B: Developer's Behaviour

- 17/18 firms indicated that their primary source of market knowledge was their own experience/instincts, followed by key informants (e.g. real estate agents)
- Developers agreed that there is no standard methodology in forecasting future demand; some rely on their 'gut feeling' and experience in the industry, while others utilize demographic trends or statistics from the pre-construction phase
- One developer noted that policy changes can have unpredictable effects on forecasting future demand/supply (e.g. zoning changes in Northdale resulted in an influx of development applications within a short time-frame)
- 15/18 developers indicated that informants (real estate agents) are an important source for information on land acquisition opportunities, followed by the use of informal techniques e.g. door knocking
- 10/18 firms have been involved in land banking: buying land as investment and holding it for future use/development. Contrary to literature findings, developers expressed that land banking is necessary to maximize returns on large-scale developments (notably for greenfield developments). According to the participants, the firms look for land based on three main characteristics: price, location, and policy trend.
- Some developers claim that the Region of Waterloo's housing market is still in great speculation dependent on the success of light rail transit and an evaluation of the potential saturation of the residential market
- For site plan design, some participants said that they will use successful elements from previous projects while accounting for site specific characteristics. On the other hand, custom builders believe that every project should be unique to maximize the development potential on the site- they target a niche market that is willing to pay for customization
- Many developers recognize that there is a need to look at new trends and ideas in order to be the forefront of development e.g. draw in architects from different areas to remain competitive in building designs
- For plans of subdivisions, majority of the greenfield developers noted that the plans are designed to optimize percentage of developable area/lot frontage. Two developers stressed the importance of designing "complete communities", incorporating a range of larger and smaller lots, in order to have various housing types, sizes, and consumer prices.
- Firms are interested in incorporating environmental features in their developments, but many developers

feel that the majority of the consumers still prioritize affordability before environmental features. Most developers will incorporate green features if they are associated with a reduction in costs, but only a subset are willing to invest significantly in green technology.

- 14/18 developers stated that they were either willing or very willing to develop a previously untested building/subdivision type or development location. The developers explained that they are willing to take risks, i.e. test the limit of building heights, densities and design features, as long as they are carefully assessed through research and are supported by policies.

Part C: Factors

Developers were asked to rank a series of physical, socio-economic, spatial, and planning/profitability factors on a scale of 1 (low importance) to 5 (high importance) to determine how significant each factor is in the land acquisition process. Below are the average scores of the respondents for each factor:

Physical Attributes

- Land Availability: 4.1
- Cost to acquire land 4.5
- Existing Land Ownership 2.2
- Environmental Conditions 3.8
- Age of building stock 2.1
- Availability of servicing infrastructure 4.1

Socio-Economic Attributes

- Market Demand 4.4
- Community's Socio-economic Traits 3.6
- Neighbourhood Resistance 2.7
- Population Density 3.7
- Employment Density 3.7

Spatial Attributes

- Proximity to Higher-Order transit 4.2
- Proximity to Public Transit 3.6
- Proximity to Regional Transit 3.6
- Proximity to Major Roads/ Freeways 3.6
- Proximity to Employment Centres 3.3

- Proximity to Retail/Shopping Centres 3.5
- Proximity to Schools/Institutions 3.6
- Proximity to Open Space 3.0

Planning/Profitability Attributes

- Flexible Zoning and Supportive Policies 4.2
- Parking ratio requirements 3.7
- Time frame for Approval 3.9
- Approval costs 3.7
- Development Charges and/or Lot Levies 4.2
- Support from local/Regional government 3.9
- Market Value of Improved Property over Costs 4.3
- Ability to Secure Financing 4.4

Part D: Developing in the Central Transit Corridor

- 11/18 developers stated that they believe Light Rail Transit will have a net positive impact on their future developments e.g. attract and retain people into the Region, development opportunities near LRT stations, encourage active transportation and reduce parking requirements
- Developers emphasized that these positive impacts are contingent on the performance of the LRT, whether the system will successfully convert people's modal choice and draw people into the Region
- Many developers expressed concerns about negative impacts of LRT including: tax implications, lack of benefits for suburban communities, construction, and underutilization of service
- Multiple developers prefer an east-west LRT line rather than the north-south extension from Kitchener to Cambridge to better "move people from dense areas to dense areas". Alongside this idea, many developers suggested that there should be greater emphasis on securing transit to move people in and out of the Region e.g. to/from Toronto
- 14/18 participants indicated that they prefer developing near LRT stations over Bus Rapid Transit stations as LRT is a permanent/fixed route system
- 7/18 developers said that land prices around the LRT has become too high for development to be feasible; however, many speculate that the price of land will fluctuate in the next few years as a result of supply and demand, where the market will respond accordingly when properties do not sell

CONCLUSION

With the proposed Light Rail Transit in the Region, many firms are interested in developing high density, mixed-use developments within and around the Central Transit Corridor. However, developers have expressed their uncertainty in the ability of the LRT to attract and retain people to the Region. From our research, some firms will proceed with incremental transitions in their developments e.g. higher density low-rise developments, while other firms are already proceeding with large-scale high-rise developments in the core areas. The land development process is complex due to the interactions of multiple agents and factors, and it is important that developers, policy makers, and consumers alike make informed decisions.

SUMMARY OF ANALYSIS

ON DEVELOPER

TYOLOGIES

From the data collected, we analyzed developers using a self-identified typology: greenfield, infill, and student housing developers. Through a combination of literature, in-person interviews, and primary data analysis of the responses from 18 developers (17 residential, and 1 non-residential), the findings show that the three sub-classes of developers exhibit their own distinct characteristics and behaviours on certain matters, but are similar for others.

In general, greenfield developers tend to develop single-use, low-rise developments, and their primary target markets are families or first-time home buyers. Infill developers are generally interested in mixed-use, mid to high-rise projects targeting a range of demographics that are attracted to the Central Transit Corridor (e.g. young professionals, empty nesters, and investors). Finally, student housing developers focus on either higher density developments or maintain existing low-density residences that concentrate near the Northdale neighbourhood or post-Secondary institutions; they are also interested in expanding beyond the saturated student housing market.

In recent years, provincial plans and policies mandate higher density targets for urban centres and corridors, while restricting development outside the urban boundary. As a result, land developers' focus is slowly transitioning from greenfield sites to infill and intensification projects within the built-up areas. This transition can explain some of the variations in the data where some greenfield developers exhibit characteristics similar to that of infill developers. Further, there are also uncertainties regarding the housing market in the Region of Waterloo. Many developers indicated that they are interested in developing high-rise, mixed-use development that meet policy objectives and economies-of-scale—especially within the Central Transit Corridor. However, these developers were concerned about the success of the Light Rail Transit (LRT) infrastructure and whether there is sufficient demand in the Region of Waterloo to absorb the proposed new residential units and commercial spaces. Therefore, rather than proceeding with high-rise, mixed-use development in the Central Transit Corridor, many developers prefer to proceed with incremental transitions from existing

low density low-rise built form to higher density low-rise and mid-rise residential developments. The gradual transition allows developers to minimize risks. On the other hand, some developers have already proceeded with large-scale developments in the Central Transit Corridor; these firms desire to be at the forefront of development in the Region of Waterloo. Although the land development process is complex and unpredictable in nature, developers use a combination of market sources along with experience and instincts to inform their decisions.

Looking at factors that affect the developer decision making, the results show that groups may weigh factors differently. For example, greenfield developers emphasize the importance of land availability, cost of land, proximity to major roads and freeways, and availability of servicing infrastructure. To them, it is primarily the physical characteristics of the land that will determine whether the proposed development is feasible. Infill developers indicate that locational attributes such as access to transit are extremely important when determining where to build. Finally, student developers reiterate the need to be in close proximity to post-secondary institutions. Otherwise, the rankings of all the developer groups are consistent for most factors e.g. socio-economic conditions of the community.

Looking at the perception of the LRT through the lens of each developer group, it is clear that there are mixed opinions on the Central Transit Corridor. Infill developers generally believe that the LRT will increase development opportunities in the corridor, while greenfield developers question the merits of such a large-scale investment. Student housing developers are generally neutral on the LRT as the proximity to institutions is their main concern. The negative perception of the LRT is primarily related to tax implications, whether the LRT will be successful in shifting the mode choice away from the automobile, and if it will attract enough new residents to the Central Transit Corridor.

Overall, the study provided insights on the characteristics of each developer type. It is evident that the classification of developers by their development types (greenfield, infill, and student housing) is not sufficient as there are further sub-classes and factors that have not been accounted for. We also recognize that the sample size is too small to be of statistical significance and further data collection with residential developers is needed to achieve a representative sample. Nonetheless, the

data collected will provide insights on models to be implemented in our land development model. The qualitative responses are crucial to understand the current market in the Region. For the post-LRT study, it is important to track the transition of greenfield developers to infill developers, particularly on how their view of the market may change. The LRT presents a development opportunity for the Region of Waterloo to expand the existing market beyond the boundaries of the Region. How the key agents (e.g. developers, government bodies, consumers) interact will determine the success or failure of the land development model in the Region of Waterloo.

Note: This is a summary of an honours thesis at the University of Waterloo by Jinny Tran under the supervision of Dr. Dawn Parker.

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