

The collapse of Office towers

By Bill Corden

Just 5 or six years ago you had to fight for office space in the downtown Vancouver core or even the lower mainland, you had to bid against others for an outlet in a mall.



Unlimited numbers of people were prepared to sign indentured leases so they could get space in a prestigious property and the real estate holding companies made sure they ground every single dime from them.

But times change as we all know.

Those boom times came to an abrupt and unforeseen end. In the blink of an eye the money train came to a stop.

Gone were the days when the property tycoons were the bullies on the block, gone were the times when they could do pretty much what they liked.

The tenants loved the malls because they brought in the customers, they paid the stinging rents, property taxes and

the utilities because they were making money, themselves, and on the top of the heap the money just rolled in to the real estate owners.

Most tenants paid it, albeit grudgingly, because they were in boom times themselves.

The owners had almost feudal powers with monitoring programs built into cash registers in the malls so they could get a percentage of sales on top of the already expensive rents.

They had advertising programs that called for compulsory payment to the mall/office tower owners regardless of content. All backed by the full power of a legal system which allowed them to seize any of the improvements you installed and change the locks if you missed a rental payment or two.

And along came online shopping, along came the internet and social media. People didn't have to go to the Mall any more. Kids didn't go to the mall either because they could talk to each other on social media from the comfort and privacy of their own rooms.

And along came Covid and its lockdown, meaning people didn't have to go downtown to the office to do their work.

It was a cataclysmic collapse that nobody foresaw, least of all the companies that held most of the real estate

All that easy money was gone now, the property administration offices were scared to answer the phones, fearing that it was another tenant giving notice to move or declaring bankruptcy.

The media only referred to it in a perfunctory manner mainly because they themselves didn't realize what was going on, exacerbated by the secretive nature of property holding administrative offices.... nobody really paid attention to who they were. They were just faceless behemoths, and a few empty stores and offices would mean nothing to them.

And yes a few empty stores and offices don't send these institutions into panic mode but when you start to get entire floors empty and you get most of the fast food places going under, somebody starts looking at bank statements and monthly income figures.

Then, when your major anchor tenants, like the Bay or Nordstroms or Target start to miss their rent payments, you've got a major problem on your hands.

Income starts to shrink but outlays remain the same (and more with the legal problems that mount).

You have to start cutting back on maintenance, you have to resort to advertising your property, bills that were paid for by the tenants in the past now come out of your income.

You start making charges for services that were free and before you know it people stop coming.

With prospective tenants you have to start making deals for free rental space and try to secure your position with cheaper leases. This leads to filling up the holes with substandard merchandisers

The quality of new tenants decreases, their cheques bounce and existing tenants start to rise up against your poor quality management of the property.

It's a death spiral

The office towers in the downtown core, the office adjuncts to the malls, are like ghost towns with no hope for revival, even though they are still glass and glamour on the outside. Only tourists offer a lifeline and they are only here for 6 months of the year.

What's attracted by the smell of death? Predators, that's what.

All of these properties are now worth less than half of their value 5 years ago and the predator funds are ready to pounce (in fact a number of the city core towers and malls have changed hands over the past couple of years, usually to New York based Equity Funds)

The new owners have done their homework, they have calculated the new reduced cash flow from the buildings and made their offers based on what sort of payments they can sustain.

And now nobody knows what the long term future of these places is likely to be.

It's all a calculated gamble and they don't spend a dime on maintenance that they don't need to. You can spot the subtle seediness that's moving into the plazas and the interiors

The new guys have to figure out what profitable use they can put these places to and inevitably they will have to offer new leases at rates substantially lower than the past with incentives to help new businesses get off the ground. Even that may not be enough to save them.

I watch the documentaries on you tube showing the abandoned Silk Road cities and once thriving centers of commerce like Petra, the empty wharves in New York City and the empty factories running alongside the railtrack on the Hudson and I wonder could Vancouver end up like this one day