

# As I feared: Planners just don't get it

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Attending a course on urban design was revealing, unsettling



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## REAL ESTATE MATTERS

**M**y worst fears were confirmed recently when I attended a course on the economic fundamentals of urban design as part of my studies in the Urban Design Certificate Program at Simon Fraser University.

I always suspected that most urban planners have little knowledge of the economics of real estate development. After spending two days in a classroom half full of planners struggling to learn the basic mathematics of financing various housing developments, not only were my suspicions confirmed, but my fear level skyrocketed.

It appears most planning schools don't teach basic finance. A lot of planners are graduated from planning school without any knowledge of real estate project financing. Courses, like the one I attended, are meant for mid-career professionals to provide them with skills they require in their everyday jobs.

There is nothing worse, though, than a little knowledge and a lot of power.

No sooner had we learned about calculating development profit and measuring return on investment, did the idle talk start talk about extracting financial contributions from developers, regulating profit and dictating

market decisions, like the size and mix of apartment suites.

After learning a little bit about the economics of building new homes, someone in the class made a comment that caused me to wonder about where the housing development business is really headed. She said "if we could only get rid of this whole profit thing, then we could address housing affordability".

Thankfully, it was quickly pointed out by another classmate that the countries that had tried to do just that no longer exist today.

Unfortunately, however, this is the new culture of the public sector where entitlement and rights are a given, where responsibility and obligation is unknown, where risk and reward is a foreign concept and where professionals are conditioned to be suspicious of those who make a profit.

These are the same people whose decisions directly impact the price you pay for the roof over your head.

Experience getting housing projects approved has taught me that when dealing with planners the only time dollars and cents are ever discussed is when the planners attempt to exercise their discretionary powers to force developers to make financial contributions that are supposed to make communities more livable.

We have yet to find a fair measure, as well, of how much more livable our communities really are a result of this redistribution of wealth.

In effect, this "negotiation" is little more than a legal form of extortion.

In most municipalities, the planners have a lot of discretionary powers when it comes to reviewing and approving new developments. They wield this power with little regard for its economic

impact. Yet, their decisions can make the difference between profit and loss.

On top of that, with the threat of their discretion looming over most developers, the "negotiating" process begins when the planners attempt to "negotiate voluntary contributions" that they can use to finance things in the community like public art, childcare, social housing, etc. How can you say no?

It is one thing to be able to know the difference between revenue and expenses and to be able to calculate basic profit, but few planners or their politician bosses understand the real nitty-gritty of real estate finance—not complicated stuff, but the basics of risk and reward.

How many of these decision makers know how equity for new housing developments is raised and what it costs to secure that equity? Or, how many appreciate the sensitivity of profit when it comes to consumer mortgage rate increases and the consequent impact on marketing time?

Courses like the one that teaches planners and others the basics of real estate finance are important. Even more important is teaching planners and their political colleagues the basics of risk and reward that drive the free market.

Without that understanding, there is little hope we will ever see affordable housing in this area.

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