Illustration courtesy of Bellstar Developments Inc.

Spirit Ridge Residence Club is one of the recreational property projects Bellstar Developments Inc. plans to build in British Columbia.

Crisis of confidence hits recreation unit sales

Despite consumer doubts, developers predict an industry rebound

By Laura Severs
Business Edge

Recreation property sales are slumping across Canada but the market has not crashed entirely, industry officials say.

As some future projects are scaled back – or shelved – due to the global economic downturn, veterans of the sector remain somewhat optimistic and expect the industry to show some growth once the economy recovers.

"Those who are considering future developments may be reconsidering their timelines," says Ross Perlmutter, president and CEO of the Toronto-based Canadian Resort Development Association (CRDA).

But Perlmutter is more concerned by what he calls a crisis in confidence with Canadian consumers.

"I expect by the end of first to second quarter, those who have saved and invested wisely will recognize that they haven't been as impacted as others and will continue to embrace the quality of life products that they always have and this will include recreational property absolutely," says Perlmutter, who expects the fractional ownership part of the marketplace will once again gain momentum when the economy recovers.

"There are approximately 300,000 vacation owners in Canada right now. To me, it's a pretty substantial segment of the market, but we predict there's still a lot of room for growth."

There's no doubt that the recreation property market is feeling the effect of worldwide economic meltdown, says Elton Ash, regional executive vice-president for Kelowna-based Re/Max of Western Canada.

"We're in a historic time as we look to what's happening," he says.

"We certainly know that projects that haven't pre-sold or that are just on paper, they certainly have stalled. You're not going to bring anything online at this point if you're a developer, due to a lack of credit (availability). That's part of the issue; the other thing is consumer interest is fairly negative right now."

It was a lack of credit and what its developer calls the "long tentacles of the worldwide sub-prime mortgage crisis" that resulted in the plug being pulled on the Skaha Beach Club and Spa in Penticton, a luxury recreational resort condominium development.

Another high-end recreational project in Western Canada, the Solara Resort and Spa in Canmore, Alta., hit a major roadblock when its developer, Canmore-based K2 Developments Ltd., was placed in receivership.

But Ash says it's not all bad news, noting that the market is in relatively good shape when compared to the rest of the world.

"Quite frankly, Western Canada is being spared and will continue to be spared the downward pricing being felt in the U.S. Sunbelt," says Ash.

Phil Soper, president and chief executive of Don Mills, Ont.-based Royal LePage Real Estate Services, expects to see a greater drop in the number of unit sales in recreation properties trading hands than in the broader real estate market.

"But given the long-term demand for the product, prices may well hold up better than prices for homes in nearby cities, at least in traditionally desirable recreational property areas," adds Soper.

Some recreational property developers are already looking for the light at the end of the tunnel.

"Right now the economy seems to be on pause," says Jon Zwickel, executive vice-president of Calgary-based Bellstar Developments Inc., a condo-resort management and development company.

"The 'pause' button was hit and we want to be ready to go when someone gets around to hitting 'play' again. I'm optimistic that there's pent-up demand and there will be some capital available from investors and purchasers in a year or so."

Bellstar president and CEO Ed Romanowski views the downturn as an opportunity for continued growth, with the possibility of acquiring other resort management companies if the right deal arises.

"There's been a dramatic drop in development ... but I think the adjustment was necessary and is a good thing," says Romanowski.

"There was too much of a bull market and there was too much product being developed. The market was buoyant for too long and was going up at a phenomenal rate for way too long."

Bellstar has a number of projects in its pipeline, all in B.C. Romanowski says it has now scaled back its expectations, adjusted prices and is focusing more on mid-market product – the $200,000-$500,000 range for a recreational property unit.

But the company has no intention of getting out of the recreational property market. "

We're in the business for the long run," says Romanowski. "We're not going to abandon the sector and come back when it's great again."

CRDA's Perlmutter agrees most new developments are years in the making and are unlikely to be stopped and easily restarted.

"I think with future developments, we will see some consideration in the speed of which they move forward," he says.

Recreational property development is moving forward on two fronts for Calgary-based Statesman Group of Companies, which in addition to the recreational property sector, is also active in independent and assisted-living projects for seniors.

"We haven't found it (the recreational property market) as bad as people are saying," says Statesman president and CEO Garth Mann. "It's not like it was in 2005 or 2006 (when the market was strong), but we're not finding that the bottom has fallen out."

Mann adds Statesman closed deals on about 140 residential units last month at its Pine Ridge Mountain Resort – a 700-unit resort community near Invermere.

Pine Ridge is scheduled to have its official opening in May and Statesman is also going ahead with its Pleasant Harbour Marina and Golf Resort in Puget Sound, approximately two hours west of Seattle.

That project is being designed as a "green" development, utilizing geothermal and other environmentally friendly technologies, and is set to open in 2010.

Perlmutter of the CRDA adds that for the time being, the industry expects recreational property sales in Canada to remain relatively flat and consistent – "which is real victory in this market."

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