



2009 Real Estate Roundtable

Where's Housing Headed?

WHAT A DIFFERENCE a year makes. Last year's roundtable came at the height of the real estate boom, and our panelists were accordingly optimistic about the health of housing. Today, the market has plummeted, leaving sellers devastated and buyers with something they haven't had in a long time: leverage. We locked the top names in real estate in a room and demanded to know: Is it time to sell, buy — or just cry? **BY MALCOLM JOHNSTON**

POST: Elise, we started with you last year, so let's do the same this time around. In the carriage trade part of the market, what's happening?

Kalles: What's happening is, today, especially in the carriage trade, they don't have to buy. They're already living in a nice house. So, if they're living in a \$2.5 or \$3 million house and they're looking to buy something at \$5 million, they have to feel they're getting value, very good value.

When I go on an appraisal, and someone doesn't have to sell, I tell them, "Well, maybe now is not the time for you to put it on."

But as far as buyers go, I encourage them to buy today. Some buyers say they want to wait for a clearer view of the future, but when the future is again clear, the present bargains will have vanished.

POST: Are there a lot of homes at the higher end sitting on the market for a longer period of time?

Kalles: Definitely.

Lamb: Elise, let me ask you a question. The time to sell last year for a \$5 million house in a good location was roughly what?

Kalles: Six weeks, a month.

POST: So is everybody just waiting? Are potential sellers just sitting and saying, 'I'm not going to sell right now, I'll wait,' and the same thing on the buyers' side?

Lamb: There are motivated sellers. These are people who are caught between homes or they're getting a divorce, but there's not a lot of them. There are virtually no power of sales or forced sales. And, believe it or not, there are people who are motivated to buy. These are people who have been transferred here and they want to buy a place, or they've gotten a divorce or they've separated from their girlfriend. We see that every day. But it's not like it was.

Stinson: We're actually going to see a *real* real estate market where people are actually buying, selling and moving, because they have a reason to buy, sell and move, instead of treating it like a stock market where I'm selling or buying because I'm going to make a whole bunch of money.

Eppel: And you actually have time to go through a property without the fear that someone is going to snap it up the next day if you hesitate.

Turner: I think the point that Harry made is a good one, and that is we've been in an environment where real estate

has been an investment commodity. Now we'll get more into a situation where it is actually more traditionally what it was intended to be: a home.

POST: Until recently, places like Forest Hill, Rosedale and Bayview were locked up, with no one selling, and so the peripheral areas became popular. Are homeowners able to trade up into those areas now?

Kalles: Yes, if you're buying in the same market. The best example is if you sell a \$1 million home and it's gone down 20 per cent, so you get \$800,000. You buy a \$2 million home and it's gone down 20 per cent, so you

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buy for \$1.6 million. So if you're buying and selling in the same market, you can do it. But you can't buy wholesale and sell retail, which is what some people want to do.

POST: Back at the height of the market, you had bidding wars and buyers going in with absolutely no conditions, just, "Here's my cheque; I want that house" sort of thing. Is that over now?

Lamb: No, it's not over, but it's not like it was. Our sales are down probably overall, with new developments sales and resales down about 70 per cent over our best year, which was 2007. But even given that, which is a big number, I would say five per cent of our deals have more than one offer on them.

Kalles: But that's if it's priced realistically. Chestnut Park had a house for \$1.8 million. It was either a tear down or you could renovate it. My people had been looking for nine months. They knew this was a good deal.

Wengle: Before people were lining up against three or four people, and it was like an overnight thing. One person says, "I'm not rushing to get there, but once I get there, all of a sudden there's another agent in the driveway." There are still instances of that, just not as many.

Kalles: There is no feeling of immediacy.

Wengle: Right.

Kalles: I have a client from London, England, who was here two months ago. He was interested in Crescent, Upper Canada, Royal St. George's for the children. So we went all over.

Now he's coming back with his wife and his child, and the houses and condos that he saw are still available. Do you think he's going to offer the same he would've offered then?

Lamb: We all got spoiled in the last six or seven years. A normal real estate market is where it takes about 90 to 120 days to sell, and you actually get a chance to look at it four or five times, bring your kids and your friends, your family, and you make an offer and negotiate and end up with a four per cent discount off the asking price. That's how it always was. It's just been about three years of my 20 years in this business where I've seen this insanity. We had situations with 39 or 40 offers on a single condo or house. It didn't make sense to me.

Kalles: My brother bought a house at \$2.8 million, \$700,000 over asking. I kept saying, "Stop bidding. How will you feel in the morning when you overpay?" But he had a reason for buying that particular house. My sister-in-law had a stroke and the doorways were wide, and you know, no stairs —

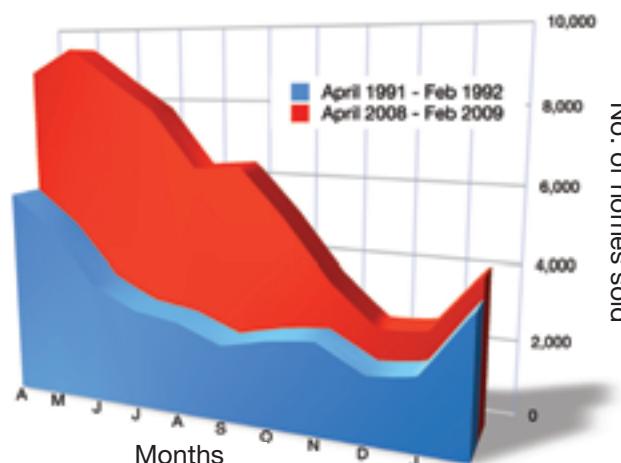
Lamb: He was probably caught up in the bidding process.

Kalles: But seven offers.

Turner: You can change a lot of

The Case for the Upturn

Has the market hit bottom?



In 1991, the last time Toronto housing sales took a major nosedive, it took nine months before the numbers turned positive again. This time, we have seen a more precipitous drop, but February saw a positive uptick. Does that signal the start of the turnaround? Only time will tell....

doors for \$700,000 —

Stinson: I'll do it for \$500, personally!

[Laughter]

POST: Is the real estate market starting to, if it hasn't already, catch up to the reality of what's going on in the global economy?

Cooper: I think that many Canadians are still in denial and that there's a lot of la-la land still around. There are whole swaths of the city's upper-income people that have lost, as they say, 50 per cent, 60 per cent of their wealth, and their jobs are at risk. They're deer in the headlights. The last thing they're going to do is make an important residence decision.

Turner: I think Sherry's absolutely right. If you look at what's happened in the financial services sector, that's likely to happen again [in the real estate market].

Cooper: That was the next point I wanted to make: that it isn't over. It's going to be worse before it gets better.

POST: Then let's talk about timing. Imagine your son wants to buy a condo downtown. Should he buy now or wait? And if it's to wait, for how long?

Eppel: I would say to wait at this stage. There are just still too many unknowns. Every morning you wake up and the question is: "Have we reached bottom?"

Under these circumstances, you can afford to wait and let things settle down a little bit. There is some merit in the idea of taking advantage of other people's panic-selling situations, but I don't know if that's necessarily out there yet in the real estate market.

POST: Sherry?

Cooper: Well, you haven't given me enough information. Does he have a job? What kind of place? Where is he working? How much money does he have to put down?

Stinson: Spoken like a true economist!

Cooper: But that aside, I'd say wait.

POST: How long?

Cooper: I don't know.

POST: Brad?

Lamb: Well, asking me if they

should wait, I sell real estate.... Elise's market is really the one to watch because there's no new product being added. It's a stabilized marketplace where you can't build any new houses in Forest Hill or Rosedale or Moore Park or any neighbourhood.

The condo market can expand, and that's the one area that has probably given people most fear. But there's a tremendous argument right now for the fact that the real estate market has bottomed in Toronto.

I can tell you when all this stuff happened: in October, November, it stopped on a dime. It was like when the planes hit the towers. Dead in the water. A real number in terms of the new condos sold in Toronto was probably less than 100, versus 2,000 the previous year in December.

But what we've seen lately is all the development sites are busy again. We're selling. Not at the same rate, but we're selling. We were selling nothing for six months. We're now selling again, and we're getting very good traffic from people kicking the tires.

So I actually think the worst is behind us. I think now is a great time to buy.

Cooper: And what would you have said six months ago or a year ago? I heard you a year ago. I mean, you're talking your book and you're a very good salesman, but the fact is the world is in the midst of a crisis the likes of which you have never seen in your life.

Lamb: Well, it's a banking crisis....

Cooper: Could I say something? You've said a lot.



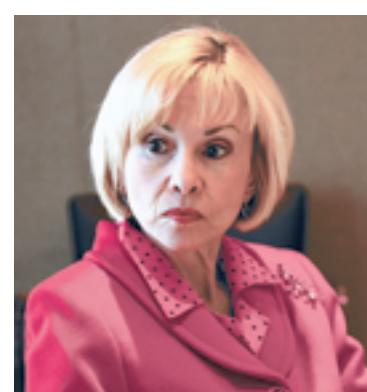
Buy a home to live in, not to make a profit on, advises Harry Stinson.



Elise Kalles says that more high-end homes are sitting on today's market.



Real estate has bottomed and is on the upswing, says Brad Lamb.



Sherry Cooper says the worst is yet to come, but housing will rebound.



The media has underreported the financial crisis, says Garth Turner.



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Lamb: Go ahead.

Cooper: It isn't the crisis in Canada that it is in the rest of the world, and it isn't the crisis immediately in the housing market that having 19 per cent or 26 per cent interest rates was. But it is going to get worse. Our unemployment rate has been increasing at a rate that has never been seen before. Retail sales just in January have fallen at a rate that's never been seen before, and layoffs are mounting in Canada....

[To Brad:] So maybe in your level of condos [things are] not going to be affected, but for the boomers who want to move down in terms of space, it's going to be extremely difficult, because they're not going to get what they want for their homes. And the condos in the area are still very expensive.

Lamb: Well, okay, let me just have a short rebuttal and then I'll pass it on. First of all, I was probably no more positive last year than you were and all your economists and all the banks, OK? If you go back to March and listen to what every single economist except maybe three in the world was

saying was, [it was a] rosy picture going forward.

Cooper: That's not true.

Lamb: It is true. All the economic growth numbers were three per cent, two per cent growth — not minus 3.4 per cent in the last quarter. It's very easy now to look at things and say, "Wow, that happened and I predicted...."

Cooper: It's way worse than we expected. Way worse.

Lamb: Absolutely.

Stinson: Let us know when we get a turn [to speak]....

Lamb: I'm not saying that we're not in a recession, and I'm not saying jobs won't continue to be lost. I'm saying the housing market has bottomed, that's all.

POST: Garth, what's your opinion? Would you advise to buy now or wait?

Turner: First, no, we haven't bottomed. I fundamentally disagree with Brad on that one. Why would you want to buy now? Well, if you listen to Brad, you'll be whipping out the

cheque book.... But these rates are going to be with us for a long time. Mark Carney said it recently: You can count on this being around. It's going to be three per cent mortgages a year from now. There's no reason to snap them up. No reason at all. They're going to be right down in the dirt, and there for a long time.

Kalles: But you just bought!

Turner: I just bought a power of sale two days ago.

Lamb: But that's buying today. You got the value today.

POST: Elise, would you advise to buy now or wait?

Kalles: If they have the money and they find what they want and they're not overextending, definitely. They're buying, they need a home. They're getting married, they're going to have a baby, what should they do?

Turner: Sure, buy a \$5 million house, have a baby —

Lamb: Like it's a choice.

Kalles: No, I'm not saying a \$5 million house. Buy a \$300,000, buy a \$400,000 home, but be in the game. That's how I feel.

POST: Harry?

Stinson: I'm not as caught up in timing, in trying to find the ideal perfect time to buy or sell. Just based on timing alone is not the way to buy a house. You're going to live in the house. I would say don't go out of the market and wait for the experts to tell you that the good times have come again. Stay in the market, just don't buy blindly.

POST: Richard, you can see how the appearance of the city changes with the downturn. Are your clients requesting a more modest architecture? Is there a physical change in that sense?

Wengle: No, they want the value. What I've found now is that, with this downturn, a lot of those bad builders and the lousy quality are going away, and we're getting back to the proper quality again. They may be paying a little bit lower, but they're getting better quality, better finishes. They are not building smaller necessarily.

POST: Until last summer, gas prices were in many cases prohibitive, often keeping people from living in the 905 because it cost so much to drive downtown every day. Harry, how is the 905 doing?

Stinson: What I think you will start seeing happen is the suburban areas becoming cities unto themselves because people are sick of commuting.

POST: Is that the case in Richmond Hill and Thornhill?

Stinson: Well, no matter where you are, whether you are going there to downtown, you're an hour back and forth. And the GO trains are not that good, no matter what they say. And the buses are on the move, so they are prone to what the cars are prone to.

POST: Should participants in the Toronto real estate market feel as anxious as they do right now, or is part of that anxiety caused by exterior factors?

Turner: I believe that the media has actually underreported the severity of the situation, not overreported it. When we watch

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The National with Peter Mansbridge every night, they are now dropping the layoffs down a story every week.

POST: Is that a good thing?

Lamb: It is a good thing. It absolutely is.

Turner: No, it's not a good thing when you manipulate the news to try and overplay good news.

Eppel: I would say that, if anything, the doom and gloomers are actually getting the [most prominent] voice.

Kalles: What will that accomplish, all this doom?

Lamb: It doesn't accomplish anything. You know, the average person doesn't understand anything they hear on television. All these economic facts you're spitting out, most people don't even know how to calculate fractions. They don't understand. You're just confusing them and it's completely not necessary.

Turner: Yeah, they should be buying houses....

Lamb: No, I'm not saying that.

Cooper: Yes, you're saying this is the best time to buy.

Lamb: People with jobs that do not have to cut back should not be squirreling money away like we are in a Great Depression, because we're not, and [doing so] is worse for the economy. So all this doomsday s*** you see on the media is way more than it should be.

Kalles: We know the boom is gone. It goes in cycles, and we've proven it over and over again.

Lamb: You know, this is the first recession we've seen in the age of the Internet where information is instantaneously zapped around the world. And so people have panicked instantly, unlike '91, '82 and '71, [when] the panic took months to occur.

POST: What will lead us out of this real estate downturn?

Cooper: Affordability. The cost of mortgages and house prices are going down. So eventually, that's what gets us out. On the flip side, incomes will grow eventually. Unfortunately, in my view, average household income is going to grow very, very slowly in the GTA just because of layoffs.

Eppel: When times are really good, all you hear about is people in the media talking about how great things are going to consistently be. Now you got the other end of the spectrum, saying how bad it's going to get. When we get out from under the weight of that and hear about an uptick in whatever economic factor you have to boost buyer psychology, that will be the turning point.

Turner: I think the stock market will rebound far before the real economy.... I think the banks will be much more restrictive in their lending, and I think you will see far less speculation in the real estate marketplace and so a dampening on price escalation.

Kalles: I've always been an optimist. It works for me. I say we have to have courage. We've been here before, and we'll survive and eventually prosper. When we're out there socially or in other ways, we mustn't wring our hands and say how terrible it is. We've all been affected.

Stinson: I think that the turnaround will happen faster than people think. I'm not sure that we've bottomed out, but we're in a far more McLuhanistic economy now. It is all perception. I think that people will get bored with the bad news because they are alive and are surviving —

Cooper: Many aren't. Really, many people are seriously in trouble.

Stinson: I'm sure they are seriously in trouble. But I do think the turnaround — or the adjustment, let me put it that way — will happen quickly. Things will stabilize, I think, within six months.

Kalles: Six months!

Wengle: I like him.

[Laughter]

Lamb: It's time. Time is going to lead us out. We're going through a recession. You can't magically fix these things. It's a bloodletting of excess, and we have to go through it, and we are going through it, and I think the worst of it is over. It's not over, but the worst is over. And it's just time. You just have to be patient. You can't snap your fingers and be out of a recession.



Cooper says the downturn has been way worse than expected.



Turner says that low interest rates are here to stay, so avoid rush buys.



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