Peace, Love & Shawarma
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POST
NORTH TORONTO

APRIL 2011

4TH ANNUAL REAL ESTATE ROUNDTABLE

Inside North Toronto's $7.45 million masterpiece
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REAL ESTATE ISSUE

SUPER MARKET
Find out why the majority of our roundtable panelists think house prices are headed higher

CONDO-MANIA
What T.O.'s top agents make of the 37,000 units coming to market in the next two years

BUBBLE TROUBLE
Why economist Sherry Cooper says no way and former revenue minister Garth Turner says beware

Real Estate Issue

2011 ROUNDTABLE

The GTA's top market mavens and mavericks congregated, electronically this time, to duke it out over their expert predictions for the next great rise (or fall!) in residential real estate. Let's get ready to rumble!

2011 PANELISTS (left to right)

BRAD J. LAMB
Condo Developer,
Brad J. Lamb Realty; HGTV personality

DR. SHERRY COOPER
Chief Economist, BMO

GARTH TURNER
Former MP, Best-Selling Real Estate Author

ELISE KALLES
Toronto's Leading Carriage Trade
Real Estate Agent

MIKE EPPEL
Senior Business Editor, 680News

ELLI DAVIS
No. 1 Realtor in Toronto for Royal Lepage
for 23 consecutive years

HARRY STINSON
Condo Developer;
President, Stinson Properties

BARRY COHEN
No. 1 Canadian Sales
Representative, Re/Max

JERRY HAMMOND
Luxury Sales Representative, Re/Max
(not shown)

At our last roundtable, our experts were, again, optimistic about the future of Toronto real estate. Top carriage trade realtor Elise Kalles suggested that the perceived market slowdown was a "seasonal" issue, not an economic one. Sherry Cooper, executive vice-president and chief economist at BMO Financial Group, agreed. Garth Turner, our panel's outspoken business and real estate commentator (and former MP), had a doomier-and-gloomier outlook: "The economy is not eternal," he proclaimed, "it seems clear we're in a period of deflationary angst."

POST: Where are we today?

Sherry Cooper: The year 2010 was a great year for Toronto real estate, and despite the concern about over-leveraged households, sales held up while price increases were moderated. Over time, home values increase with incomes. Indeed, average resale prices and personal incomes both rose 5.7 per cent per annum in Canada in the past 30 years. However, prices more than doubled (113 per cent) in the decade to late 2007 and grew twice as fast as incomes from 2002 to 2007 — largely due to the dramatic decline in mortgage interest rates and the easing in credit conditions by the Canada Mortgage and Housing Corporation (CMHC).

Even after sliding 13 per cent through the recession, prices quickly rebounded and are now 10 per cent above their 2007 peak for Canada as a whole. Looking ahead, incomes should grow faster than prices in the next one and a half years — the time frame in which interest rates are expected to normalize — allowing valuations to improve. If incomes climb eight per cent and prices stabilize, as I expect, the current overvaluation would fall to six per cent, hardly the stuff of corrections. Growing incomes and steady prices should support affordability in the face of expected higher interest rates. To date, low interest rates have kept affordability in check.

Harry Stinson: I am not an economist, and even if I were, it seems one can find statistics and experts to substantiate optimism or pessimism to any scale — so I can only offer my instincts and experience.

Frankly, I am becoming uncomfortable with Toronto prices. Typical "new construction" prices in Toronto are moving past the point of sensibility, in terms of positive cash flow or resale upside.

That's not to say that prices of $600 per square foot (and up) are inappropriate or unachievable in Toronto. Premium dollars are justified and sustainable for addresses such as the King Edward, Four Seasons, Ritz-Carlton or some buildings in Yorkville, but there are tens of thousands of new units rolling onto the market taking such price points for granted across the board.

More and more I am hearing people tell me about their "great investment": a one-bedroom for only $500,000, in a new building the name of which temporarily escapes them at this moment — but it's definitely in a "hot area." With apologies to President's Choice, the term that comes to mind is "memories of '89," when condos eased into becoming a financial commodity rather than accommodation. When the majority of suites in most new projects are pre-sold to investors being wined and dined at lavish "VIP" receptions, my spidey sense starts tingling.

I don't anticipate an across-the-board price correction, nor a wave of U.S.-style foreclosures. But the premium price bandwagon is overcrowded, and it would not surprise me if a number of projects were redesigned, repackaged or even deferred.

Garth Turner: It is comforting to hear Harry Stinson has joined the ranks of the realistic.

Those who cry that Canada cannot and will not have a "U.S.-style" housing correction are wasting their breath. A Canadian-style correction, given the tapped-out status of most families, is enough to worry about. A correction of, say, 15 per cent followed by a slow multi-year melt will be enough to make newbie, equity-less buyers or boomers with the bulk of their net worth in a house, regret that they were ever lulled into a complacent stupor by the real estate and banking cartel.

Harry Stinson: I am not booking passage on "Garth's ark" quite yet, but I'm certainly no longer of the "Don't worry, be happy" state of mind. And even if there is a correction, I don't foresee a wave of Canadian defaults. When prices dropped seriously in the early 1990s, most [Canadian] owners simply held on.

Garth Turner: True enough, Harry. But the problem is not defaults, it's negative equity. That dissipates the wealth effect, which rising house values give and nukes consumer spending. We do not need a "U.S.-style" housing collapse here to reap similar results. When most middle-class people have most of their net worth in one thing, time to split.

Still some room on the ark, pal. The lemmings left for an open house.

Harry Stinson: Well, I will put my first-class ark ticket on my credit card.

Garth Turner: Excellent. I have an ark miles program.

Jerry Hammond: I certainly believe we are in times of growth; our immigration has increased year over year. This country has a neutral position politically and has a sound and strong economy. I feel, due to political unrest in other regions of the world, we will continue to be a favoured country to reside in. The real estate values may be increasing, but if we compare our pricing to other major cosmopolitan cities, we are undervalued.

Garth Turner: Jerry, are you running for president of the Board of Trade? Those words scream "trust me" to people considering walking into the greatest debt load of their entire lives, at rates bound to reset, to buy an asset that looks overvalued at best.

Barry Cohen: Residential real estate in the Greater Toronto Area has posted one of the healthiest decades on record, with prices steadily increasing since 2000. Housing values have risen 77 per cent, up from $243,255 in 2000 to $431,463 in 2010. Given the current trajectory, since the levelling of 1996, real estate only has one place to go … UP. Unlike other Canadian markets that have seen serious double-digit increases in average price, housing in the GTA has appreciated at a stable, healthy pace, a five and six per cent yearly rate. Given the many failed predictions over the past 15 years, why correct now? They have hardly got it right thus far.

While the housing units of sales may appear to have softened somewhat from 2010 levels, due to the limited supply, the market is expected to remain hearty, with the average price forecast to climb a modest but healthy and sustainable two to four per cent by year-end. What's wrong with that?

Garth Turner: This is the kind of statement that so misleads inexperienced, impressionable, house-horny young buyers. I almost fear it is intended to do so. But I'm worried even more that you believe it. Real estate is an asset class like all others. It does not go up forever. It is heavily influenced by economic factors as well as hormones. And those who say buy now or buy never are almost always the sellers.

I would counsel first-time buyers to put their desires back in their pants and wait for an inevitable price correction. Buying today with five per cent down is to condemn them to being underwater with the first move downwards. Barry's good at pumping sunshine up rear ends, but not so much at being responsible.

Harry Stinson: I can't say that I am as categorically certain of where the world is heading as some panelists seem to be, but I am very uncomfortable with the assumption that "real estate can only go up." For some reason, I have visions of Leslie Nielsen calmly reassuring people that there is nothing to worry about ("Return to your homes; the government has everything under control….").

Brad Lamb: Two thousand and ten was not the best year in total sales in the history of Toronto. It was actually the third. It was, however, a very good year. It also appears that 2011 will be a strong year as well. I expect that 80,000 resales will take place this year, making 2011 a year not unlike 2003 in volume.

We do have a problem in Toronto. Prices are rising too fast. This is an issue for basic affordability. It is also a problem for condominium investors looking to carry an investment with a 25 per cent down payment. They can't. If these five to 10 per cent annual increases continue, we will have a correction regardless of the strength of the economy. Essentially, what will happen is new development sites will have to shut down due to poor sales.

Garth's scenario is unlikely. Most of the risky mortgages were done two years ago, and by and large, these buyers now have excellent levels of equity. The U.S. meltdown was initiated through wildly inappropriate lending practices due to a unique banking and mortgage system in the U.S. We do not practice anything remotely like the U.S. model.

ENCOURAGING A BUY NOW BY A YOUNG PERSON WITH FIVE PER CENT DOWN IS INSANE. DANGEROUS, RECKLESS AND MYOPIC

GARTH TURNER

POST: Eighteen thousand new condominium units went up in the GTA last year. Another 17,000 will go up this year, and another 20,000 will rise next year — meaning Toronto will have more condo units for sale than any other city on the continent. Are we oversaturating our market with condos? Is this portion of the market most vulnerable to a correction?

Garth Turner: [In response to Brad's comment:] This is a handy piece of Canadian myth, which also goes to the nature of the question regarding condos. Those property virgins enticed into buying with 5/35 financing two years ago only have equity now because of the illusory nature of market valuations. They have not paid a thousand bucks off their principals nor dumped in more cash. They are repeating the faux market mistakes of our American friends, thinking that unrealized capital gains are in fact real money.

They're not. And they will vanish in the slightest of market corrections. This is the danger that it seems nobody on this panel is willing to acknowledge (except Harry, who knows better), given the ritualistic chanting of "real estate always goes up" I'm hearing. It's hard having a cogent argument with cheerleaders. Too damn flirty.

We have allowed people without money to buy houses. We've lowered lending standards. We've introduced teaser interest rates. We have zero-down financing and liar loans. And we believe a market correction is impossible. So how are we not "anything remotely like the U.S. model"?

Toronto condos embody this danger. The worst real estate investment in the country. Well, east of Richmond [B.C.].

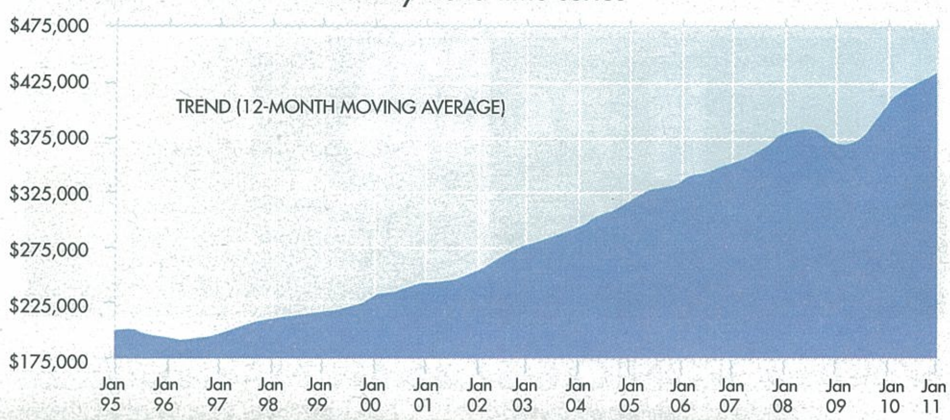
Brad Lamb: Garth is massively overstating the situation. Unlike the U.S., we never abandoned sane lending behaviour and quickly moved to adjust in areas that were too lax. It was over two years ago, when zero per cent down and 40-year amortizations were possible. In that time (based on a $200,000 one-bedroom, 500-square-foot unit), a buyer would have paid down $5,000 to $7,000 of principal and accumulated $75,000 capital gain. This currently would give the buyer almost 30 per cent equity. There is no ticking time bomb.

Barry Cohen: It has become apparently obvious that condominiums are certainly becoming the first step in home ownership for many first-time buyers in the GTA. Eroding affordability has been in large part behind the push in recent years, but other factors have come into play, including location.

Harry Stinson: Frankly, I do not foresee a public meltdown of the Toronto condo market. Builders will likely defer some projects and deal with nervous purchasers on a case-by-case basis. "Better" projects (location, sponsor, design) will continue.

AVERAGE TORONTO HOME PRICE

Monthly trend time series



Source: Toronto Real Estate Board

This chart shows the average home price since January 1995. This trend is computed using a 12-month moving average, which exhibits no seasonal variations or other irregular fluctuations. A substantial change in actual average price must occur to change the direction of the trend.

As usual, the people who will lose out are the more highly leveraged small investors, who will sign releases — and walk away from existing deposits — in order to avoid having to pay further deposits and come up with closing funds. They will quietly take their lumps in the Canadian way. Even more sad, by the time the buildings are completed (in several years) their units might well be worth as much or more.

Meanwhile, the deep-pocketed investors will indeed close and possibly work with the developers to absorb the rescinded units for the balance due, or less.

Elli Davis: I was involved in two bidding wars tonight on two houses (both sold over asking). I can't say the same for my condo listings.

POST: In our neighbourhoods, the homes are reaching astronomical heights. What we'd like to know is who is buying up these multi-million-dollar homes on established streets in areas such as Lawrence Park and Hogg's Hollow? Foreign investors or locals?

Harry Stinson: On this issue, I will probably agree with Garth even before reading his comments.

Once upon a time, people looked at certain houses and thought, "Wow" (and assumed they must be expensive). Now, they look at prices and think, "Wow, for that house!?"

Without getting into a big-picture socio-economic analysis of where and who the money is coming from, there seems to be a growing disconnect between product and price. If anything, this trend speaks volumes about the desirability of Canada — and Toronto — as a place to live.

I am definitely an advocate of condo living, but when ownership costs become $4,000, $5,000 or $6,000 per month, then big-picture socio-economic factors become less and less relevant on an individual or family basis.

Jerry Hammond: The obvious answer to that is building small suites.

Harry Stinson: I do understand the concept [of small suites], but when the prices for small suites are creeping into the $500,000-plus range, that's when we should get nervous.

POST: Brad Lamb, Garth Turner, anyone else care to comment?

Garth Turner: On who is buying in to the horsey set areas of North Toronto? Who cares?

This is a road the delusional fools in Vancouver and Richmond have been travelling down, trumping up Mainland Chinese buyers' influence and then using this as a marketing tool to encourage the citizenry to "buy now or buy never." The truth is that offshore money is a tiny fraction of all Canadian markets and will remain so. Toronto (like Vancouver) does not rank among the financial or cultural capitals of the world. We are cheaper than London, for example, for a reason. Namely, this ain't London.

More interesting is who's buying Leaside? Million-dollar homes with dodgy foundations on lots not wide enough to have both a lawn and a driveway go to the heart of the house horniness that has propelled prices to a level from which there is only one future track.

This will not end well, for the reasons I articulated earlier in this thread and which panellists have ignored.

Elli Davis: Trading up and trading down seems to be what's keeping me very busy. The over-60 group are dividing up the wealth between cottages, golf clubs, travelling or giving "Junior" the down payment for a condo (there's that word again!) or duplex. Inheritances are playing a large part of the new wealth as the boomers are aging and going to never-never land! The trading-up group are professionals — bankers, doctors, dentists, lawyers, business owners, in their 30s to 50s, who are reaping the benefits of the low mortgage rates and starting to spend some of their hard-earned savings. Many did not spend much from September 2008 to late 2009! It's not surprising to hear of a $2 to $3 million purchase with a $500,000 to $1 million mortgage being arranged.

Garth Turner: Holy crap. When this observation is entered into a general discussion of real estate in our region, we're in deep trouble.

Editors, save us! We've hit a 'burg.

Harry Stinson: Not to worry, fellow passengers, the band is still playing … (it's but a flesh wound).

Elise Kalles: High-end buyers are coming from China, Korea, Russia and Europe. Also, Canadian buyers are purchasing these high-end homes. It's difficult to say what debt load they are carrying as they arrange financing independently.

Jerry Hammond: The luxury market is certainly influenced by our foreign buyers. They seem to find our real estate relatively inexpensive compared to other major cosmopolitan cities. The foreigners are immigrating from China, Iran, Korea, Russia, parts of the Middle East and regions of Europe. Their minimum requirements are 35 per cent to 50 per cent for a conventional first mortgage, if they are not Canadian citizens, and as low as 25 per cent if they are Canadian citizens and can show proper income qualifications.

I would estimate that they make up a large part of today's luxury market. They are buying in Canada because of our standard of education, our social well-being, quality of life, political stability, health care and our continuing economic growth, due mostly to our natural resources.

POST: Would you recommend to your son or daughter to buy a house in this market now, with a reasonable down payment and standard mortgage terms, or to wait it out and risk being priced out entirely?

Mike Eppel: Trying to time a market is next to impossible. Therefore, if my son or daughter had a solid down payment and low mortgage costs (locked in over a minimum of five years), I'd be comfortable telling them to buy now. It comes down to time horizon and personal financial levels. If you're going in with the bare minimums for affordability, you're likely going to struggle.

Also, if you're planning on moving again within three to five years, you're probably going to see minimal price appreciation or possibly a slight retreat for prices (condo market likely more risky). But buying something in a desireable neighbourhood with solid finances to back it up should not be a problem. One thing the local market has been is resilient, so even a decline in prices would likely jump-start the next uptrend (depending, of course, on interest rates).

Elise Kalles: Prices have gone up 5.4 per cent, per year, every year for the last five years. For most people, the best investment they have made is the purchase of their home. With capital gains benefits and the fact that you can't live and raise your family in your stock portfolio, I believe that a home purchase is a great decision.

Harry Stinson: Don't take this personally [editors].

First, the question itself suffers from a perspective that has become all too common: we are treating our homes as if a stock market investment.

Given the context (advice to our children), my advice would be "Yes, you should own your own home. Notwithstanding the market cycles and the endlessly changing insights from experts, you should become — and stay — involved in real estate as a homeowner. If you feel inclined to trade in additional real estate as an investment, then as of early 2011, frankly, I would be very, very careful."

As for worrying about "being priced out entirely," if anyone hands you this line, I would walk away and make a note to call the salesperson in a month or so.

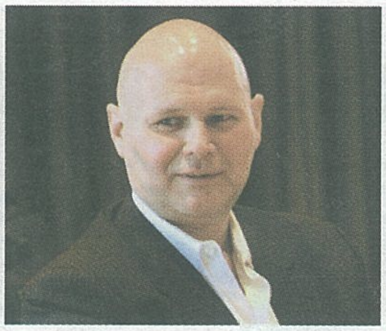
NORTH TORONTO'S $7.45 MIL MASTERPIECE

According to a recent report, high-end listings are a hot commodity buoyed by foreign investors as well as local homeowners trading up thanks to one of the best decades for real estate on record. In early 2011, there were a record number of sales (over 150 homes had changed hands) in the $1.5 million and up price range. A fine example of a carriage-trade home, this Riverview Drive gem, pictured on the cover, backs onto the prestigious Rosedale Golf Club. Features include six bedrooms, eight bathrooms, in-ground pool, home theatre, grand stone terrace overlooking the ravine and, of course, a dog shower.

Royal LePage/J&D Division

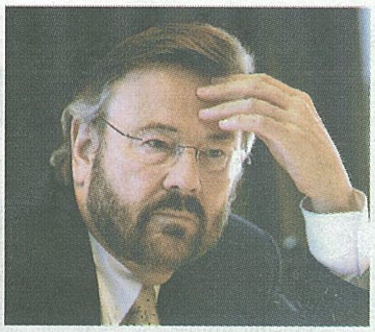
Harry Stinson: "I don't foresee a wave of Canadian defaults."

Elise Kalles: "You can't live and raise your family in your stock portfolio."



Brad J. Lamb: "We do have a problem in Toronto. Prices are rising too fast."

Sherry Cooper: "I don't believe Toronto real estate is at bubble levels."



Garth Turner: "Toronto condos: the worst real estate investment."

POST: Don't worry, Harry, we're OK.

Jerry Hammond: Yes, I would absolutely recommend that my son or daughter purchase a home in this market. I believe you have to view the market long-term. Interest rates are at a record low, and studies show that real estate has had a steady incline of approximately six to seven per cent per year, which translates to a strong return on investment in comparison with other investment options.

Elli Davis: It's all timing and affordability. The answer is yes, as long as there is a cushion if interest rates rise and there is an ample down payment.

I would not suggest the purchase if it is intended as a fast flip or turnaround, as there can be dips in the market, as we experienced in late 2008 and many other times before.

Barry Cohen: Sure I would [tell my children to buy real estate]. As a matter of fact, my son looked cautiously for a year and only just purchased a couple months ago. I told him that real estate is long-term. And he could hold it and possibly resell it to Garth's kid when the market corrects. Which is when, again, Garth? Oh yeah, every year.

Garth Turner: If I hated my kids, I would encourage them to go and see one of the house-pumping panelists who have been part of this discussion.

In fact, the very question, as posed — buy now or risk being priced out of the market — reflects the blindly pro–real estate bias that has infected our media, our lives and turned TV into non-stop house porn.

Encouraging a buy now by a young person with five per cent down is insane. Dangerous, reckless and myopic.

POST: In the GTA — single-detached or condo — that would be a safe area? We know Garth seems to cite the further reaches of the GTA as particularly risky, but what areas are particularly safe ... if any?

Harry Stinson: Given that we are talking primarily about people's homes (rather than speculation, right?), it would be unwise to focus on "getting a good deal" in a location where you really don't like living.

In general terms, the closer to the core (and rail transit), the better.

A truly "safe" area? How about Mount Pleasant Cemetery.

POST: In a year from now, where will we be?

Harry Stinson: Frankly, still in the GTA agonizing over essentially the same questions.

Prices will likely have stabilized and probably softened in the new (pre-sale development) condo market. Quite likely many projects will have been postponed, although the public will not be as aware of this (those that are already on the market will continue, with internal tweaking and sales incentives offered).

I really do feel uncomfortable with upper-middle-class house values (not the super-premium market) where I think we will see six-figure softening.

However, Toronto's population will continue to grow, and properties will continue to be occupied. Unlike many areas of the United States, we do not have — and will not have — neighbourhoods, or even buildings, with noticeable proportions of vacant and/or foreclosed properties.

That's not to say that everything will be wonderful. I really think that many values will soften and that many "investors" will be squirming or scrambling to resolve their "Plan B..

As a general rule, people will be happier with their real estate than their stock portfolio.

And Rob Ford will still be mayor (it's a trade-off...).

Mike Eppel: Slightly lower on average prices, slightly higher on mortgage rates and a modest increase in supply of homes available.

Barry Cohen: Likely the same place we are now, answering a similar question for the upcoming year because much will not have significantly changed other than the weather will be cooler or warmer, mortgage rates up a point or so. The number of sales may soften slightly and residential values in the GTA will have moved forward moderately and not corrected. Lastly, hopefully the colour orange will have gone out of style.

Elli Davis: I expect many more condo listings for lease and for sale as the new buildings come to completion, and the "flippers" will still be making a profit if they bought four to six years ago — but perhaps not the big bag of gold that they expected. I see the "house" market still very healthy, especially in the central areas, and unless the supply increases dramatically, the price levels will stay about the same.They are very high now and feel they will level, not increase very much at all.

Elise Kalles: Slightly higher on average prices, slightly higher on mortgage rates and a 10 to 15 per cent increase in supply of homes available.

Jerry Hammond: The demand will remain strong and prices will increase. Interest rates will only increase slightly due mostly to our neighbours, the U.S. Our dollar must remain low or at parity since we are an export nation. And by increasing interest rates, this would only place pressure on Canadian industry and housing. Housing plays a huge role in stimulating the entire economy.

Garth Turner: By mid-2012, the prime rate will be north of four per cent, having increased from 2011 by a third. There will be no more insurable 35-year mortgages.

Real estate values will have fallen in the GTA from year-ago levels but not enough to restore affordability given the higher interest rates. Dismayed sellers slow to drop asking prices suffer long periods on the market. Buyers sensing there are more reductions to come, hold back, assured that will happen. Thousands of GTA condos are owned by reluctant landlords who used to be speckers and flippers, now failed. Rents are declining and supply is swelling. Untold numbers of young couples who were told in 2009 and 2010 that buying 5/35 was a no-can-lose proposition are starting to slide underwater.

In North Toronto there is shock and awe. This is not the way it was supposed to be. Indebted nouveau Leasiders bay in anguish, knowing they missed the market top. Wealthy Persians and Mainland Chinese wonder what enticed them to invest millions in a city they thought was immune. And the *Post City Magazines* panel, by now soundly inebriated, watches the sun set over Lawrence Park. One. More. Time.

Sherry Cooper: Toronto house prices will be up, but only by two per cent to three per cent, compared to 4.6 per cent last year. This slowdown will reflect higher mortgage rates and tighter mortgage terms. Garth has been predicting near-term Armageddon for years now. I do not recommend speculative home purchases, but given that 68 per cent of households like to own their residence and many more aspire to for lifestyle reasons (family reasons, privacy, pride of ownership, means of self-expression and just plain human nature), the Toronto residential real estate market will generate moderate average gains, with real inflation-adjusted appreciation likely below recent historical norms.

Garth seems to believe that home ownership is simply a financial issue. It is very much an emotional issue as well, as the behavioural economists are proving. In the history of mankind, people have longed to put down stakes and to create beautiful, personalized homes. Societies with high home ownership levels are stable societies. When the Communist Iron Curtain came down, families worked hard, saved money and bought homes.

To be sure, speculative fervour takes over periodically, ending in collapse. I don't believe Toronto real estate is at bubble levels. If prices rise too fast this year, which I doubt, we could be in for a nasty correction, but even then, still nothing like the U.S. crash.

HE COULD HOLD IT AND POSSIBLY RESELL IT TO GARTH'S KID WHEN THE MARKET CORRECTS. WHICH IS WHEN, AGAIN, GARTH? OH YEAH, EVERY YEAR.

BARRY COHEN