REAL ESTATE ISSUE

2012 ROUNDTABLE

For our fifth annual real estate roundtable, we wrangled seven of the GTA's top market mavericks at the Granite Club for a lively and insightful debate on just what continues to drive up our housing prices, the possibility of a significant slowdown and where the market will go from here

by Charlotte Herrold and Ron Johnson

2012 PANELISTS

GIL BLUTRICH
President, Skyline Investments; owner, King Edward Hotel and Deerhurst Resort

DR. SHERRY COOPER
Vice-president and chief economist, BMO Financial Group

CAROLE HALL
#1 sales representative for 8 consecutive years, Royal LePage/Johnston & Daniel Division

MATHEW ROSENBLATT
Principal, Cityscape Developments; Distillery District developer

ELISE KALLES
Toronto's leading carriage trade broker, Harvey Kalles Real Estate

BRAD J. LAMB
President, Lamb Development Corp. and Brad J. Lamb Realty Inc.

HARRY STINSON
Condo developer; president, Stinson Properties

When we last asked our high-powered panel to gaze into their proverbial crystal balls, sparks flew. By the end of the discussion, the group was clearly divided as to whether we were approaching bubble levels. A year later, housing prices in the GTA have continued to rise, which begs the question: will this party continue or are the good times about to end?

Called away from this year's panel at the last minute, real estate author, former minister of national revenue and roundtable veteran Garth Turner requested to pose the first question, by proxy, to Dr. Sherry Cooper:
The average detached home in Toronto now sells for $818,000. That's eight times average family income. Meanwhile, household debt has exploded and incomes trail inflation. [For you,] as an economist having seen the U.S. experience, is it negligent not to be warning people about this bubble behaviour?

Sherry Cooper: I think we are [warning people]. Certainly the Bank of Canada is warning people, and the minister of finance has warned people, and CMHC has tightened its regulations. Our bank, along with most of the other banks, are being scrutinized by OSFI to ensure that we aren't making loans to individuals or families that would be stretched if interest rates were to rise, and, of course, interest rates do have nowhere to go but up, but I don't think they're going to rise any time soon. So, yes, this is an issue, no question, but — and there's always a but — in Toronto, as in Vancouver, there are other issues that are driving markets beyond simply income and debt. The issues have to do with land use management; the scarcity of land (particularly for single-family homes); the cost of construction; the influx of many non-resident Canadians or even non-Canadians who intend to live here part-time and aren't part of our personal income data; there are many more two-income families than ever before; and, finally, it's the cost of capital — it's *de minimis*. So, a lot of people can qualify: most of the banks now — in fact, I think all of the banks now — are broadening their requirements so that they would be means tested on a basis of mortgage rates significantly higher than the current level.

POST: So Garth is going to have to wait another year to be right.

Sherry Cooper: Well, a stopped clock is right twice a day.

Brad Lamb: Many wealthy investment bankers in New York with three kids can't afford to own a home. They have to rent. And we think that in this city we should have the right to own our home, but there's a scarcity of property, and there's a gigantic amount of money coming in from offshore [from investors that] don't care about any per cent return on their money like local Canadians do. They want to put cash down on a property, and they're OK with a three per cent return on their money because that's all they can get from the bank. That's the Bank of Iran — their money's not safe there; it's safe here.

So what's happening here is exactly what happened in New York nine years ago and what happened in London 100 years ago — it's the Manhattanization of Toronto.

Sherry Cooper: We already have home ownership ratios of 70 per cent of households. That's above the west.

Brad Lamb: It will decline, but right now we do.

Harry Stinson: You can take statistics to prove everything, but gut instinct is, at least from my perspective, the numbers have gotten to a silly level. Most people are starting to cringe, like in '89, when the market was doing fine, and then people woke up the next morning and said, "What'd I pay?" Maybe not tomorrow morning, but I get the sense that the music's going to stop playing soon. Those people who bought assuming some greater sucker will come along next week and pay them a big profit, they're going to have a problem. The stable people will sit tight, but those who bought a condo and flipped it and made money and bought a condo and flipped it and bought a condo and flipped it might want to take a pause in that particular program right now.

POST: Would you recommend buying a house with, say, five per cent down in this market?

Sherry Cooper: No.

Brad Lamb: I don't think you should ever buy a house with five per cent down.

Sherry Cooper: Exactly. I don't think anybody should buy a house for five per cent down. I always say this: buying a house is not an investment decision, it's a lifestyle [decision].

Elise Kalles: You own a home to live in. I've presented offers where [clients have said], "I've been here for 25 years, and you think I can only double my money? What's happening out there?" And I say, "But you've lived there for 25 years. You can't just use it as an investment house if you're going to live in it with your family."

POST: Given the potential for a soft landing in the near future, do you think it's better to invest a bit more now to get into a more established, older neighbourhood that might hold a value better in a slowdown or maybe go for more land in a less desirable area? Like say, Leaside versus across the river in East York?

Harry Stinson: Like we were saying, when you talk about the house market, it generally is someone's life, and trying to program your life to the marketplace is, I don't think, what people do.

POST: Maybe people entering the market or getting their second home — I mean, they want to have a little bit of a safety net. They think that way.

Brad Lamb: I think you're right. When people are buying a house — maybe not in the multi-million-dollar range, but if you're buying a $500,000 house — most buyers don't want to feel like they're going to lose money in the next two years. So, they're looking for a safe place to buy.

Carole Hall: Where is that $500,000 house?

Brad Lamb: It's in East York. And let me tell you, they're building no new houses [there]. You might see a townhouse complex of 30 units downtown or even around here [Bayview and Lawrence]. There are no new houses being added in the city. If you really want to be safe, I would buy a house because, frankly, you can't replace it. We're not adding any volume, so what's that going to do for house prices? It's going to drive them higher. Unless we increase the number of single-family homes, detached and semi-detached, prices are going to continue to rise dramatically.

Gil Blutrich: I think the opportunity is north of the Greenbelt. In the past, we could see the prices were almost the same. You could buy a condo in Collingwood for the same price as buying in condo downtown. And the gap between Collingwood and downtown Toronto now is huge. North of the Greenbelt right now the market is still depressed. We don't see the same phenomenon we see south of the Greenbelt.

Elise Kalles: I think people today buy around the schools where they want to send their children. That's the most important [factor] for people. In Denlow, the houses we sold [in 2006] have [now] doubled. You list a house for $1.2 million, and they come in with $100,000 more. You try to tell them that there are no other offers, and they say, "I know that, but we've missed five houses. We want this house. Our children are going to start in September. We want to be here."

Harry Stinson: For the last several years, the rising tide has carried everybody up, and I don't think that's going to carry on. I think the market is going to become far more selective in the next little while; it's going to slow down. I agree with you [to Brad]: Toronto's condos downtown are way ahead of the world. We have phenomenal quality of product downtown. But just assuming it will always keep going up, so don't worry?

Brad Lamb: Well, of course it won't. When the next recession happens, they all say it will collapse.

WHAT'S HAPPENING HERE IS EXACTLY WHAT HAPPENED IN NEW YORK NINE YEARS AGO — IT'S THE MANHATTANIZATION OF TORONTO.

BRAD LAMB

Harry Stinson: There's a phrase: "This time it's different" with the economic disaster. Everyone around here is rationalizing.

Mathew Rosenblatt: They should buy what they want, as long as they can afford it through interest rate swings. I mean, that really is the most important thing. Buy what you want, make sure you can afford it. If young buyers are trying to time the market, they risk pricing themselves out of the market if they're wrong, and then they'll never have a house.

Brad Lamb: [to Harry] I worked with you in 1988. I remember how that went, and it's nothing like it [is now]. The buildings are better. We're a million or two bigger than we were then. There's just no comparison. [Back then] there were acres and acres of empty parking lots and open space. Inflation was running at over 10 per cent. Interest rates were 13 per cent. And that was a self-induced recession. The Bank of Canada said, "There's too much inflation here." And they just kept on raising interest rates until the economy collapsed. How is that going to happen now? I still don't see where that's coming from.

Elise Kalles: But it goes in cycles.

POST: It sounds as if what we're getting at is that the average single-family detached home is becoming unachievable for most people, and you're saying that's not necessarily a negative thing. Is it simply part of our evolution as a world-class city to attract all these foreign dollars?

Sherry Cooper: You have to move further and further away from the city in order to afford something, and that's true of New York City and London and many, many other cities.

Brad Lamb: And you have to apply new math to the situation here. The numbers that Garth Turner and all these other people have talked about are based on an old system, but when the market's being driven by money from people from a lot of different places, that math doesn't work anymore. All the tools you would use to check whether our market is overvalued are thrown out the window. They don't count anymore.

Harry Stinson: "The numbers have gotten to a silly level."

Elise Kalles: "Toronto is unique, and there's still going to be growth."

Brad Lamb: "There's a rational demand that's not going to let up."

Sherry Cooper: "Buying a house is not an investment decision."

Mathew Rosenblatt: "Buy what you want, make sure you can afford it."

REAL ESTATE ROUNDTABLE

CONTINUED

Gil Blutrich: Now, there is another phenomenon in the city. Ten years ago, we saw movement of major companies' headquarters from downtown to the suburbs. Recently we see them moving back — and why? Because of their employees — because they want to live downtown because of the affordable rent. So we're seeing now very high occupancy levels of office buildings, we're seeing new office buildings, and we're seeing historic lows of vacancies of the office sector.

Brad Lamb: There are really two markets now in Toronto: there's the condo market and there's the housing market. If you want to buy a house in the Beach, you'll be one of 16 people lining up to buy it: so 16 [potential] buyers — that's 15 losers and one winner. Markham's not expanding. Mississauga's not expanding. There are no more houses being built in those areas. If you want to live in Markham, and a lot of people do, you're going to line up, and there are going to be 10 offers on that house. And you're going to wait six months to bid. So if there are nine losers, Harry, what do those nine losers do? We're not building new houses: you understand that? We're building zero houses in the GTA, zero. There are no lots. Milton's expanding — maybe Barrie — but nothing within an hour of Toronto.

POST: Let's move on to the local market. Carole, what is the mood on the ground? Are there still bidding wars in the central, older areas of Toronto? Who's coming in to buy these homes?

Carole Hall: There are still a lot of bidding wars, especially for under $3 million. Once you get above $3 million, there aren't so many bidding wars.

Sherry Cooper: Are you talking about in Rosedale and Forest Hill, $3 million? In Hogg's Hollow, are there bidding wars for houses for $2.5 million?

Elise Kalles: $2.5 million, yes.

Carole Hall: We've had some foreign buyers come in to Toronto and really bid up the land value, and they're taking the houses down and putting up $4 million houses. Now, those houses are not selling as quickly, but they're not always perfect houses. They're sometimes missing the mark on what the Canadian wants because it's the Canadian buyer they're after. They're not after another foreign buyer. But it is a lot of foreign money buying up the basic land, and now the basic land in Lawrence Park is bid up to $1.9 million, $2 million.

Gil Blutrich: In my neighbourhood [Bayview and York Mills], you can't find a lot for less than $2.5 million.

Carole Hall: Any time a house comes up in your area, there are multiple offers on it.

Elise Kalles: And in Bridle Path it's the same thing. The lots have gone up to $5.5 million, $6 million for just the two-acre lots. And there are no bidding wars in that price range, believe me, because the buyers already live in a $4 million, $5 million home, so in their minds [their new home] should have everything.

Brad Lamb: It's hard to push around a very rich person. It's easy to push around a person spending $250,000 because they're lining up for everything. They don't have the money. But if you're going to spend $10 million on a house, you're wealthy, and you probably got there by being pretty good at something and pretty tough, and if you have to line up to pay $10 million for a house, you're going to move on to the next one, I would think.

Elise Kalles: I showed a house in Lawrence Park, and they loved, loved, loved it. The agent called me while I was watching my granddaughter in a play, and she said, "I have an offer and we're presenting at 10 o'clock." So I excused myself, ran out and called my client. He said, "You know, the laundry room was a little tight. I think we'll wait." If they're not in a hurry, they're not going to bid.

Sherry Cooper: On our house, we had an offer and there were four or five other couples that were very interested, so they said, "Find out if it doesn't go through" because they didn't want to bid.

Brad Lamb: Well, I recently sold my condo. I thought it was a high price, and it sold in a day with three offers.

Elise Kalles: For what price range?

Brad Lamb: $1.7 million

Carole Hall: It's very difficult to find large condos. There just aren't enough being built anymore.

POST: So where are families that have kids and want a bit more room going? Are they getting priced out of the central areas? How far do they have to go?

Brad Lamb: I don't think I've ever sold a condo in the sales office to someone wheeling in a kid.

Sherry Cooper: I think it's the empty nester that wants the big condo.

Brad Lamb: It will change. It will change.

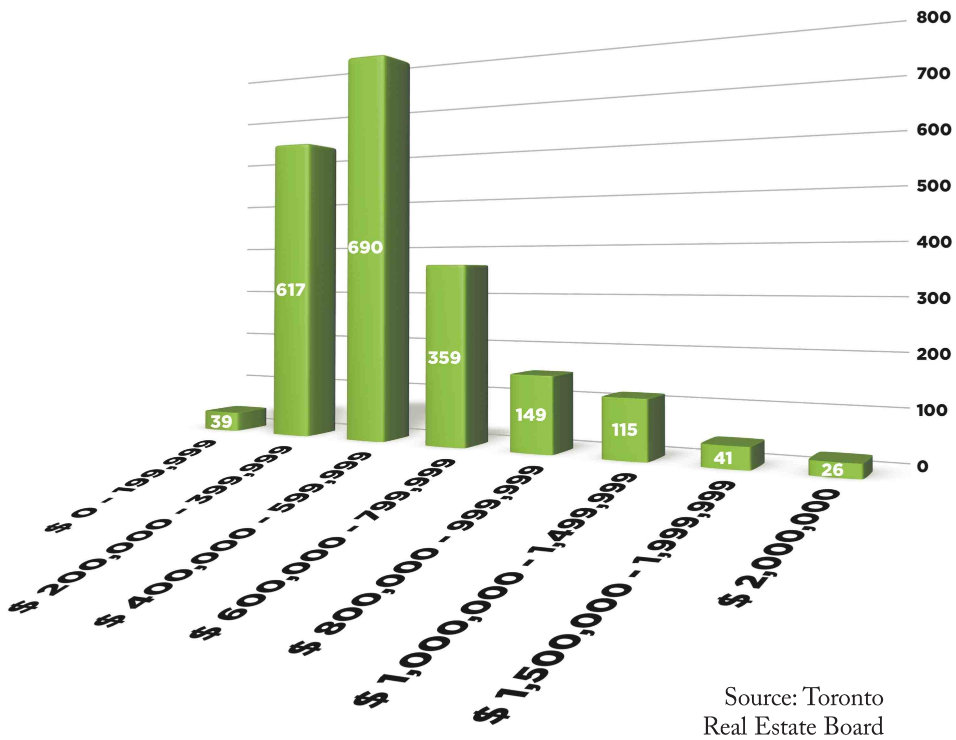
Mathew Rosenblatt: We're now seeing people buying with young kids, babies. But just one [kid], not a big family, and sometimes just one parent. They're still able to live in smaller units, but when the kid hits primary school.…

Harry Stinson: I don't think anyone has yet really designed a family condo downtown. I'm sure, if they'll pay for it, we'll sell it to them, but the marketing is not family oriented.

Brad Lamb: It's because they won't buy them. The councillor we work with downtown is Adam Vaughan, and he has a new policy: in any building you have to have [at least] 10 per cent three bedroom [units]. So I've got five buildings in his ward, and we don't sell a single three-bedroom apartment until the building is done. [People] won't walk into a showroom and wait three years [for a family apartment].

BY THE NUMBERS

Detached homes sales by price range (year-to-date, 2012)



Source: Toronto Real Estate Board

POST: What neighbourhoods, if any, do you still see as having a good deal of potential for growth in the future — such as Leslieville a few years ago or the next Junction?

Brad Lamb: The up-and-coming areas for development are really where you can build condos. I think the big expansion is in the east of Toronto and the south of Toronto around the Port Lands.

Carole Hall: They're all busy, but North Toronto and Chaplin Estates and Leaside are still affordable areas — and good areas.

Mathew Rosenblatt: I'm a big fan of anything near a good private school or one of the top public schools because the wealth will continue to pay for the lifestyle.

POST: So schools are a big driver. What other amenities are in high demand?

Carole Hall: Proximity of the TTC. You get a lot of people working down Bay Street, and not everyone drives downtown anymore.

Sherry Cooper: People also want to have public transportation for their cleaning lady.

POST: Earlier we talked about empty nesters wanting to sell their single-family detached homes in central areas and move to nice condos. Now that there are a number of five-star places opening up, do you find that there are more people in our markets that are considering downsizing?

Elise Kalles: There are options, but some of them are reluctant to sell a house for a condo, and they feel it may cost more.

Sherry Cooper: But those luxury condos are selling. I paid more for my condo than I got for my house — and it's much smaller, of course. But it's a different lifestyle entirely.

Harry Stinson: Toronto has now evolved to a point where condos are a lifestyle choice, whereas 20, 30 years ago, if you couldn't afford a real house, then you bought a condo. Now it's an option.

POST: If your kids wanted to get in to the market, would you advise them to wait and see what happens or jump in?

Brad Lamb: I think we're safe at these prices. I don't think there's any sort of risk with the prices we're at, so if you ask me today, I'd say, "Buy."

Elise Kalles: If you're at the stage where you need a house [and] you're not buying it to sell, and I say that to my clients. They ask, "Do you think I'm making the right decision? Maybe I should sell my house, rent and then look again when the market goes down." I can give you many examples where they waited, and then to replace the house that they sold, they had to pay more. I think if you find a house in the right area and you can afford it, don't wait. And it goes in cycles. Even after '89, looking back, those prices came back and then some.

IF YOUNG BUYERS ARE TRYING TO TIME THE MARKET, THEY RISK PRICING THEMSELVES OUT, AND THEN THEY'LL NEVER HAVE A HOUSE.

MATHEW ROSENBLATT

Sherry Cooper: Real estate's a good investment from a lifestyle perspective, and what's more important than where you live to your overall quality of life? So, if you can afford it, then I would certainly recommend to buy. The notion of waiting on the sidelines, I don't think that really works because your life doesn't wait on the sidelines.

Gil Blutrich: I think for investment purposes, there are better alternatives south of the border or north of the city. If you want to buy a residence for yourself, it's a lifestyle decision, so sure.

Carole Hall: Whether you start today or you start tomorrow, it's very important to own a house, free and clear, at the end of your life.

Harry Stinson: I'm going to agree with two comments: first of all, as a personal acquisition, yes, I would — and there are always deals out there, even in the Toronto market, there are always deals out there. Just keep your eyes open. But in terms of investment, I absolutely agree with Gil. The Toronto market right now is not an investment market.

POST: Crystal ball time: where will we be in 12 months?

Harry Stinson: I don't see a collapse; I do see a softening and a separation. I think people are going to get fussier about what they're buying, and that will be reflected in the prices. I think there will start being a larger and larger surplus of condos because I just think the music's got to stop in that particular field.

Carole Hall: Well, we have a very stable government now. I think having a majority government is good for the country. We've got a lot of immigration coming in. I don't see the prices going down. I see us being stable with a moderate increase. I'm not as familiar with the condo market downtown, so I don't have an opinion on that. But, north of Bloor we have big demand in the condo market and the housing market. We're not seeing as much activity in that $4 million level, but houses at $2.5 million, $3 million and under, definitely there's movement. If you want something in the very in-demand areas, you'll have to bid up to get it.

Gil Blutrich: I think we'll see a stabilization in the market as long as the interest rates remain at these historically low levels, and the Canadian economy will continue to attract investors and will continue to go the way it's going now.

Sherry Cooper: I don't see the Canadian economy growing by more than two per cent this year and only a touch stronger next year. Ontario in general is underperforming the country as a whole because of the very strong Canadian dollar and the rationalization in manufacturing, and that doesn't hit directly, but certainly indirectly it does, so I don't expect to see the price of appreciation and the degree of construction activity, building permits in the next 12 months or even 24 months that we have seen in the past few years. But I do think it's going to be a slowdown as opposed to a collapse. What we will see in the housing price range and condo price range is a continued excess demand and prices rising. It's just that they probably won't rise as much. The big unknown is what happens to the foreign inflow of capital — and given that, we can't even measure it, we really don't know. But I'm optimistic about it because, as we've heard here, Toronto is unique, and we'll continue to be a very attractive magnet for foreign capital.

Elise Kalles: I agree. I think that Toronto is unique, and I think there's still going to be growth but a slower rate of growth.

Brad Lamb: I think real estate prices for all kinds of listings, including condominiums, in Toronto will continue to increase. Unfortunately, human beings don't behave rationally. We behave irrationally, so I think we're eventually going to drive our prices to a point where they can't be sustained. I think that will probably coincide with the next recession, at which point we will see moderate to significant drop in real estate prices.

Mathew Rosenblatt: I think the long term for the city is very bright, especially if interest rates stay low over the longer term not necessarily as low as they are right now but generally low. I think if they stay in and around the same range that they're in now, there's still smooth sailing — meaning that there's not going to be a collapse in the market. It will be a stabilization or very minor price increase right now, but for me, it's all about interest rates. If interest rates stay low, we're good in the short term.