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ELISE KALLES



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SHERRY COOPER

REAL ESTATE ROUNDTABLE

8 HOUSING HEAVYWEIGHTS DUKE IT OUT OVER WHERE THE HOTTEST MARKET IN TORONTO'S HISTORY IS HEADED

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DIANE FRANCIS



BRAD J. LAMB



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REAL ESTATE ROUNDTABLE

Last year's roundtable came at the depths of the recession, and our experts fought tooth and nail over when the market would pick up. Today, T.O. housing is reaching historic heights, but with the HST, mortgage changes & interest rate hikes ahead, is our inflated market floating toward a giant pin? Moderated by Malcolm Johnston

2010 Roundtable Panelists

Dr. Sherry Cooper
Chief economist, BMO

Elli Davis
No. 1 realtor in Toronto for Royal LePage for 22 consecutive years

Diane Francis
Editor-at-large, Financial Post

Elise Kalles
Toronto's leading carriage trade real estate agent

Brad J. Lamb
Condo developer, Brad J. Lamb Realty; HGTV personality

Paul Miklas
President, Valleysmede Homes; HGTV personality

Harry Stinson
Condo developer; President, Stinson Properties

Garth Turner
Former MP, best-selling real estate author



>> Check out the video of this story at www.postcity.com

>> **POST:** Brad, last year you were the most accurate of all of our members of the roundtable —

Lamb: — you don't say!

[Laughter]

POST: You stated the market had already bottomed and that we were well on the way to recovery. Today the market appears to be soaring. Are you still as bullish as last year?

Lamb: I'm positive. Last year, prices had dropped and were coming out of a trough, and demand was still low, sales were low, so it was pretty easy to call that it was going to change and get better. I think we've had a tremendous time the last nine months, and I don't think we're going to have the same kind of time we've had over the next year. I don't think prices are going to fall, but I don't think we're going to see the same increases that we've seen specifically in the last six months. We're getting a little ahead of ourselves, I think.

POST: Diane, you're the editor of the Financial Post and the newest member of our roundtable, so welcome. Do you buy what Brad is selling?

Francis: I think that the dampener on it, from this year compared to last year, was something that actually Garth pointed out first before anybody else did ... and that was the potential for a bubble, because of the Canadian Mortgage and Housing Corporation plumping up the cash that they had, there were terms that were ridiculous, open-ended. It started off as a [way to] help the beginner homeowner,

and they were giving mortgages for millions or so, or certainly lots of money. And so there was a concern that there was a bubble, and I guess the bankers thought there was, too. So that's put a little break on it, and I think that's healthy. So I'm glad to hear that it's still going strong. You know, home ownership is an important driver in getting us out of this.

POST: Garth, you were the most bearish member last year. What do you think lies ahead?

Turner: Well, obviously I sucked last year in my prediction. But I don't think ultimately that I'm wrong. I think that the timing of this thing is a very difficult and problematic thing to know. A year ago, obviously, we were in a very volatile and uncertain period of time. We did not really understand how dramatically the Bank of Canada would reduce interest rates nor that the Bank of Canada would be the only central bank in the world that would announce that interest rates would stay low for a set period of time.

POST: When do you think interest rates will go up?

Turner: I think [Bank of Canada governor Mark] Carney is going to start [raising them], probably in July or August. I don't think he going up by a quarter or a half point the first time. He may send out a shock wave. It may go up a half or three-quarters the first time. I don't know. But I think he wants to send the signal out, "I gave you guys a year."

POST: Well, let's key on that point. If those interest rates do go up, and if they shoot up quickly, what's going to

happen to Toronto real estate? Elise, what do you think?

Kalles: Well, I think Canadians are much more careful than Americans, you know. They're debt averse. They don't mortgage as high as the States. And in my market, you know, I'm dealing with one per cent of people who can afford over a million dollars. And right now there's not enough on the market, and everybody is looking. And you're right, they want to make a commitment before July 1, whether it affects them or not. I've explained it only affects new properties. I think, in the coming months, there'll be more on the market, there may be a correction.

POST: So how long are homes sitting on the market at the high end?

Kalles: Just before Christmas, for some reason, a lot of the big houses sold, some of them in three, four days. Some of them sit for a year. As I said, it's one per cent that can afford over a million, but when you're thinking seven, eight, 10 million, it's .01 of one per cent that can afford that —

Turner: And you know them all, don't you?

[Laughter]

POST: David Rosenberg of Gluskin-Sheff said recently that Canadian real estate is overvalued by 15 to 30 per cent. Do you think he's right, and if he is right, does that mean we're in a bubble?

Stinson: I don't think people in the money market business have any sense of how little credibility they have left. The average

person who's made a good deal of money in real estate in the last few years and is balancing that against their financial advisor — who's got nothing but excuses and blaming it on this economic trend and the Japanese yen or some other obscure thing that means nothing to them — they're just going to say, "Well, my experience is real estate worked for me," and they're going to stay there.

POST: Garth, are we in a bubble?

Turner: Well, you know, I think 2010 will be a watershed, uncertain, interesting year. The first half of the year, we have buyers continuing to scramble to try and get ahead of interest rate hikes, get ahead of the HST, which will affect real estate commissions and legal fees and closing costs and all that kind of stuff, so it is a factor. They're going to try and get ahead of the April 19 mortgage changes, although they're basically in effect already. The second half of the year I think is going to be somewhat more difficult, because the HST will be in effect....

How can real estate go up 20 per cent in a year on average and be sustainable at that level?

Lamb: It hasn't, though, Garth. It isn't. Listen, it hasn't done that on average. Maybe in Vancouver it's —

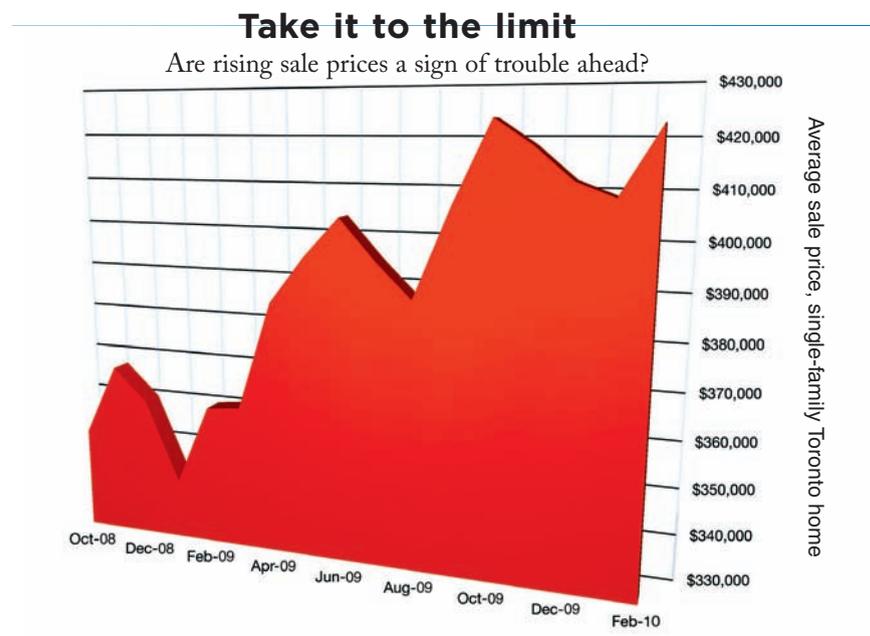
Turner: No, no, in Toronto, I'm just talking about creating the average, the average price across Canada.

Lamb: OK, Toronto, this last year it went up 20 per cent, but it went down 10 per cent the previous year, you've got to look at that.... There's no doubt, what's happened right now in this city is the easy money's been made. OK, like, the very low hanging fruit has been picked, and so anyone who's lucky enough to buy in the last three or four years has done very well. Anyone right now who's buying a lot for \$1.6 million in Markham probably won't be thrilled with their purchase in a couple years.

Miklas: I disagree with you, it's not —

Lamb: Hold on, let me finish. When we look at condominium prices in Toronto that are well over \$500 a square foot, we see resales selling with 12 offers, so the market is very, very hot. It's not sustainable at this level. It's just not. OK? And I think there's a little bit of the market getting ahead of itself. The easy money has been made. I don't think that means what all real estate people fear — [which] is prices falling and a collapse of demand.

But, I don't think, as Garth has said, that we can continue to see 20 per cent increases. We can't see 20 per cent this



year, or we have a problem, without a doubt we do.

POST: Garth, do you want to weigh in here?

Turner: Well, I still believe that it takes a very active market below the average house price or below \$500,000 to make an active market above it, and I just see buyer resistance. I see it coming. I really do. I think the jobs have not come back into the economy.

Lamb: But they will, Garth.

Turner: No, well, maybe they will, but the point is, people have a fear of the future, and when interest rates start to go up even by one point, when the HST comes in, when there's more supply on the market overwhelming demand, then I think you could see a price correction. I really do.

Lamb: You think it's a jobless recovery, is that what you're saying? We're not going to get jobs when we've had economic growth of five per cent last quarter? People aren't going to hire?

Turner: I think we're going to have inflation go up with higher energy prices, and I think we're going to have an economy flat lining. I don't think our GDP is going to grow that much. Sherry can tell us what she thinks, but I just don't see the fact that we're going to have a lot of employment created in this country. And without employment, you have a false economy. And with a false economy, you're supported by artificially low interest rates, by a government pumping stimulus in, and that's going to end. Look at the budget. We've got a \$56 billion deficit, Ontario's \$25 billion dollars in deficit.

Lamb: Have they factored correctly the growth rates that we've seen? Like, what they were thinking three and a half per

cent last quarter? It was five. One and a half per cent more growth has a huge impact on tax revenue, so are they actually doing their job right here, or are they gonna surprise us with a smaller deficit?

Turner: Brad, the economy is on drugs right now. The drugs are government stimulus and cheap interest rates. Those things are coming off.

POST: Sherry, what's your sense of the strength of the economy?

Cooper: Frankly, I believe that Canada is going to be a real magnet for money. The money's going to come into stocks and bonds, but it's going to come into real estate, and it's serious money. And we are seeing it already. There's a reason why the Canadian dollar is so strong. And even now, when the euro is plummeting and the pound is plummeting, the Canadian dollar remains strong.

We are an island of calm in the midst of a tremendously dangerous world, and our banks — and honestly I can't be happier to say this — a year ago, our bank stocks were down 65 per cent, and literally a year ago, because it wasn't until March 9 that the whole stock market began to turn, we didn't know where the bottom was ... the fact of the matter is, we have the strongest banking system in the world.

POST: What about the debt-to-income ratio?

Cooper: It's higher than it's ever been, but it's not really high because, when you look at Canadian loan to house value, it's extremely low, and it's only come up a bit. And I would argue that it's come up because CMHC did become so aggressive with 40-year loans and five per cent down, and they've only tightened that a little bit. So, the banks are solid and individual households in Canada net worth as a per

cent of income has risen sharply, and it really isn't down much from the peak-peak, which was in around '07.

POST: OK, lots to digest there. Garth, what do you make of Sherry's points?

Turner: Those are all good and valid points, and I'm not going to dispute them at all. But I think, when you take a look at the household debt-to-income ratio, it is worrisome because we're in the same stratosphere right now as the Americans. I guess what bothers me about the argument that our loan-to-value ratio in Canada is low, well, it's not really when you take a look at recent originations. And when you take a look at originations, mortgage originations —

Cooper: But that's a tiny part of the outstandings.

Turner: Did I interrupt you? No. You may be a chief economist, but just sit on it.

Cooper: Sometimes I forget the dumb things you've said, so I have to get my shots in —

[Several: Ooooooh!]

Cooper: [To Brad] He did that to you in the e-mail exchange [our mid-year real estate report card], so I thought it was fair.

Turner: I take a look at all the people in Canada who have bought with five per cent down, 35-year mortgages, for example, over the past year. If there were to be a 10 per cent correction in the market, you've got a lot of people who are underwater. And, all of a sudden, you've got a human emotion starting to turn. Interest rates are going up the same time as the HST; the jobs aren't coming back. And that's why I think this roundtable sounds like a conference of the National Association of Realtors, circa 2005.

Davis: Well, I think it's a bit — what's the word — when the government imposes these things on people? I mean, I am a very responsible person.

POST: But not everyone is.



ELLI DAVIS

REAL ESTATE ROUNDTABLE

continued

Davis: Yeah, but are there that many that are not?

POST: Well, in the States it would suggest that there are.

Davis: It's just hard to believe. There was an article in one of the magazines in Toronto about all the people who have multi-million dollar mortgages on their homes. I mean, I don't know how these people sleep at night.

POST: Well, let's talk about that. If someone's moving from Leaside or Allenby up into Forest Hill, how much debt are they taking on?

Davis: It all depends on their own personal situation. If they have a great job, if it's a secure job, if the wife and the husband are working, if they have parents — you know, there's a lot of money being inherited now, too. That's another thing a lot of people forget.

POST: But is there a lot of debt being taken on?

Davis: I believe so, but I still think it's within reason.

POST: What kind of range are we talking?

Davis: On a million dollar house, they might mortgage three to four hundred.

Severall: That's nothing.

Davis: I know it's nothing!

Francis: That's a nuisance mortgage.

Davis: I have a lot of people moving up, and I also have downsizers. I have people in Forest Hill, Rosedale, Moore Park, Lawrence Park coming down to condos.

Turner: Can I just make a point here? Elli, if there are a lot of buyers, if you have five or six offers on a property, a lot of buyers are going to go to their max, right?

Davis: Yep.

Turner: And if we see a 200 basis point increase in the Bank of Canada rate between now and, say, a year from now, which is two per cent, which effectively doubles the prime rate, how can that not have an impact?

Davis: They should think ahead. We try to counsel them: "If the rates go up, can you still afford this? Like, don't overextend yourself." And you really have to qualify your buyer and make sure they qualify themselves.

Turner: But how can it be a healthy market when people are in that situation with multiple bids and we've seen the average price of a home go up 20 per cent in the past year? Can that be normal?

**“Did I interrupt you?
No. You may be a
chief economist,
but just sit on it.”**
— Garth Turner

Davis: They're often selling their own home property as well.

Turner: Right, but can it be sustainable, I guess, is the question?

Davis: I think the supply increase will just calm it down. I think it'll level, as Brad said at the very beginning. I feel a little leveling happening in the last week or two.

Lamb: Hey Garth, interest rates aren't going to, like, nine per cent.

Davis: They're still low.

Turner: Oh, no, I know that.

Lamb: Rates will go up, people will have to adjust what they're buying. It's going to be harder on first-time buyers. For instance, in Elli's market ... the \$500,000 guys will do \$475,000, and the \$1 million people have to come down to \$900,000. They'll have to adjust what they're buying to afford it. Human beings have to figure



PAUL MIKLAS



ELISE KALLES

out what they can afford on their own.

POST: Paul, you started construction on a \$23 million mansion during the depths of the recession.

Miklas: I did, you're right.

POST: So what gives you so much confidence? Has that top echelon of homeowners been totally untouched by the recession?

Miklas: You know what, let's go to the profile of the purchaser. They're international businessmen who are coming from overseas, and they're looking at Toronto as an investment because, let's understand, Toronto's real estate is phenomenal.... So, the clients I'm dealing with actually have taken hits in Dubai, they've taken hits in the States, they've taken hits in Germany and so forth, and they're actually liquidating their assets. They want to come to Canada, and they want to park their money now into Toronto real estate.

POST: Elise, where are you getting traffic from?

Kalles: We're getting a lot of out-of-the-country buyers.

Turner: Quantify it.

Kalles: A lot of Canadians —

Turner: How many? How many?

Kalles: Well, I don't need a lot.

[Laughter]

Turner: That's true in your market.

Kalles: The last three sales, big sales, that I've made this past year were Canadians who lived abroad and now are starting their families. They've been there 10 years. Companies send them, banks bring them back, and they're ready to settle. They want to raise their children in Canada, in Toronto.

POST: OK, time for a new subject. Which of Toronto's areas is most overvalued?

Lamb: Yorkville.

POST: Elli, what do you think?

Davis: Leaside, I think Leaside. Leaside I don't understand. East of Bayview. Those streets like Sutherland and Bessborough — they're wild! I don't really do much in Leaside, but Leaside has always been a very interesting place for me to look at. I think it's very high.

POST: Diane?

Francis: I mean, if you want New York services and a New York lifestyle and high density doesn't bother you, and you travel a fair amount and money's no object, Yorkville. But I don't think it's overvalued because everyone who bought could afford to be there and had choices. So it's not overvalued.

Lamb: It's totally overvalued.

POST: Elise?

Kalles: The Annex, Yorkville, I think. I used to think Rosedale. It's the new market in Yorkville that's really high. It's not so much the resale. There was a property just sold this week. It had been on the market a year.

Miklas: You know, besides the new Four Seasons project that's coming out of the ground, Yorkville's pretty much going to stop being developed because you can't get any more properties down there to develop. So doesn't it make sense that over the time period —

Stinson: Well, the old Four Seasons is going to be condos.

Miklas: Well, that's what I just said. That one's going to go to condos. After that one's done, you'll see Yorkville as a locked-in area, and it'll continue to grow. I think it'll escalate in price. I think you're right, it's probably a little overpriced right now,

but, even if you're investing in the market in the long run, don't you think it's still going to be a good investment?

Francis: I think it's irrelevant.

Lamb: I think regardless of whether things run out of supply, prices still fall sometimes. People get ahead of themselves. So, you know, case in point, New York's a city where it's hard to build. There's not a lot of stuff available, and prices have dropped 70, 60 per cent. Why'd that happen? The same thing will happen to Yorkville if it gets ahead of itself. I think the Four Seasons is asinine. I think \$1,700 a foot for a condo in the Four Seasons is a scandal.

Davis: But that's just on paper. Wait until they're built. It'll be interesting to see what happens.

Lamb: But they've okayed that on paper, and I think a lot of people will be very unhappy.

Davis: But there's a lot of real people going in there.

Francis: It's not that many units. It's what, 400 units? Four hundred people with that kind of money who don't care about price? Of course not. A lot of people didn't pay that.

Miklas: I'd love to see where we're going to be in Yorkville in three to five years. When it's built, finished, done.

POST: What's the most undervalued area in the city?

Lamb: The east end.

Stinson: I agree with that.

POST: Do you mean Leslieville?

Lamb: Leslieville, Riverside, Liberty Village....

Miklas: Elise, would you not consider Denlow a good spot to invest in right now? 'Cause it's sleeping. It's a bit of a sleeper.

Kalles: Anything that comes up is sold within days.

POST: Is there a lot of competition there?

Kalles: Yes, yes, definitely.

Miklas: And the numbers are still good. The numbers are still reasonable and it's got a game. The only thing is, for some reason, Denlow hasn't really hit as other areas have. Like, we talk about location, location, location. It's got everything there.

Kalles: It has great schools. Denlow's been

voted as one of the top schools, public schools in the city.

POST: In a volatile market, Elise, what's the most secure area of Toronto if you want to retain value?

Kalles: Well, I really, really think Rosedale and Forest Hill. The proximity to downtown. The good private schools. You can walk to Yorkville, you don't have to live there, and it's close to everything. I think it's like living near Fifth Avenue but not being right there. And that's why the Annex and Yorkville is always going to be worth a lot, no matter what.

“I think \$1,700 a foot for a condo in the Four Seasons is a scandal.”

— Brad J. Lamb

POST: Brad, what's the safest place?

Lamb: Well, I think Rosedale for houses, probably, because it's a tight community. They don't make any more [houses]. I think Forest Hill probably, too.

Francis: It's gorgeous.

POST: Twelve months down the road from now, where will we be? Brad?

Lamb: I think the economy will be stronger. I think unemployment will be lower. It's hard to imagine real estate dropping in times of expanding economy, so I think the real estate market will be better. Prices will be a little bit higher. I don't think it will be as tight a supply of real estate that we've seen. A lot of building is taking place again. So it'll probably be a slightly more balanced market than it is today.

POST: Elli?

Davis: I think the market will continue throughout the year, and I just suspect there will be a leveling off, similar to Brad,



GARTH TURNER

unless the supply increases greatly. I don't think it will actually decrease price, but it could happen in certain areas. They might come down a little if the supply increases.

I'm looking to put on a house in Forest Hill that, in the next three weeks, there is not one other house for sale on six competing streets around it. There's nothing for sale. So I'm probably going to put it at a very, very, very hot price and have a swarm.

Cooper: But why would you price it, you're saying low, and have a swarm? But why do that? Because why not price it a little higher?

Davis: Because you increase the activity so much, you get so many more people looking at it.

POST: Is that disingenuous, in a sense?

Lamb: You're trying to get as much money as you can for the owner.

POST: But you're attracting people who won't be able to actually compete.

Cooper: But that's OK!

Stinson: Well, then stop bidding!

Davis: There is a level where people will stop. But I've had bidding wars. I've had up to 12, 14 offers on a house. What you generally see in that is very interesting. You usually see two or maybe three that are way above the others. So eight or nine fall off in the first round, and then at the end, you're basically with two or three people who are really in the same price range, and they just go for it until it's very close at the end, usually.

Cooper: And the price is higher if you set it at that price.

Davis: Yes. You get more money that way, absolutely.

POST: Let's change tack slightly. Would you advise your kids to buy now?



HARRY STINSON

Lamb: In a nutshell, I think I would. As I said earlier, I think a lot of the really easy money's been made, but I do believe that real estate in Toronto's a good long-term purchase. So if you're not speculating on real estate, I think buying now and holding for a long time will do very well.

POST: OK. Elli?

Davis: Yeah, I think it's important to have some piece of real estate, and I think it's great for a young person to have something because then there's a stepping stone to something larger. And, if this keeps increasing, with no stepping stone, it's a big leap if there's nothing to step from.

Miklas: Yeah, I would support my kids buying homes right now. I think the interest rates are incredibly low. I feel that they could easily afford a home in a great location, which is the important part of an investment. Providing that they bought at the right location at the right number.

Cooper: Well, obviously, it depends on whether he has a job or not and can he afford the down payment, but, assuming yes, I definitely think he should be buying a home. I think that because of the very low interest rates, this is a great opportunity. The money that he borrows won't cost him as much as it might a year from now, and if he has a significant down payment, I'd feel a lot more comfortable.

Stinson: I would say, yes, buying real estate, assuming that it's a long-term investment. These panels are annual, and media coverage on whether to buy and sell is minute by minute, if not hourly or daily, but that's not how you make money in real estate. You get in the market and you stay in the market for decades. And trying to time it daily, weekly, monthly, even by a year, is just not the way. But I would say get in the psyche of owning real estate, yeah. And leverage it as high as you can.

POST: Diane, what do you think?

Francis: I teach business students at Ryerson, and I'm a visiting professor there. I tell them, the minute they're done, even if they're in school, you have to buy. Because you have to live somewhere. Are you going to pay off a landlord's mortgage, or your own? You have to own. That's how you build wealth. If they have trouble on the income side, you rent out rooms. Finish the basement. I mean, I think more like an immigrant thinks. You have to own.

Stinson: That's actually an interesting point: you think like an immigrant. Canada is an immigrant country. And, typically, immigrants prefer buying real estate because it's understandable, it's secure, it's a rock. 