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# REPORT ON BUSINESS

THE GLOBE AND MAIL

# THE BIG CHILL

SPECIAL INVESTING ISSUE



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COVER SHOT EXCLUSIVELY FOR REPORT ON BUSINESS MAGAZINE BY MASSIMO BORTOLAMIOLI; (RIGHT) ANDREJ KOPAC



# OUT LIKE A LAMB

Will the condo crash leave super salesman Brad Lamb in the cold?  
Not if you buy his investment argument. By John Daly

**B**rad Lamb knows why people say he should be very worried. After all, he's the real estate super salesman who personified the condominium boom in downtown Toronto over the past decade. Lamb, 6 foot 5 and chrome-domed, is hard to miss, in person or in his cheeky billboard ads. And few agents or developers—Lamb is both—revelled as openly in the flash and the bling of the boom. There was the Rolls-Royce Phantom, the double-sized penthouse loft on the waterfront and, yes, the fiancée, Catriona Smart (he's 47, she's 28), who until recently co-owned and ran a Queen Street West boutique called Brazen Hussy. For the past two years, Lamb and the 17 sales reps at Brad J. Lamb Realty Inc. have even starred in a reality TV show, *Big City Broker*, on HGTV.

But last fall, real estate markets fell off a cliff; Toronto condo sales plunged by more than half. Time for a little austerity? "No more \$15,000 Vegas weekends this year," Lamb says semi-seriously.

If he is to continue prospering, Lamb has to persuade potential buyers and project lenders that investing in condos is still a good idea. Through a combination of spin, logic and hard numbers—and Lamb is very quick with all three—there is a case to be made.

First, Lamb says, central banks appear to be determined to keep interest rates low to avert economic collapse. This will likely limit real estate price declines. After the Toronto housing market peaked in 1989, and after Canada sank into a recession in 1991, lenders' posted mortgage rates were about 8%. This time, rates are effectively half that: Posted rates have been around 5%, but many borrowers are getting better deals. "People are gonna see rates they'll never believe," Lamb says.

Even as things stand, a one-bedroom downtown Toronto condo priced in the low 200s (thousands, that is) carries for around \$1,000 a month—about what you can charge in rent for it. During the early 1990s slump, Toronto real estate prices declined by about 30%, but Lamb says low rates mean "there isn't the same pressure to sell this time around." Last November, Toronto condo prices were about 10% lower than a year earlier—not bad

compared with alternative investments like North American stocks, which were down by about a third.

But what about all those condos under construction? Isn't there a glut? Real estate booms can end abruptly, and the most spectacular projects often overshoot the end. A famous bit of, ahem, empirical evidence is the Empire State Building, started during the Manhattan skyscraper frenzy of the 1920s and completed just in time for the Great Depression. In present-day Toronto, projects bidding for the mistiming big-time include 1 Bloor, a \$450-million, 80-storey tower proposed by developer Michael Gold, who makes Lamb look like a piker in the glitz department. In October, 2007, crowds lined up around the block for the opening of its sales office. In an episode of *Big City Broker*, Lamb sends one of his agents to the opening, but balks at paying "some guy" \$2,500 for his spot in line. "I saw the beginning of the end with that," Lamb says now. Last fall, after razing shops on the site, Gold acknowledged that some of his U.S. lenders had pulled out, but he said he'd found others.

The trouble is apparent just looking out the windows of an unsold, \$1.2-million, two-storey penthouse in a building that Lamb has developed, Gläs: Within blocks, construction cranes sprout from about a dozen unfinished condo towers. There's a whole whack of product still coming onto a depressed market.

Lamb acknowledges that there is a surfeit. According to the Canada Mortgage and Housing Corp.,



# 6 PLACES TO BUY REAL ESTATE NOW



## WEST VANCOUVER

By October, this pricey Pacific enclave had seen year-over-year price declines of 22%, and an 88% increase in listings, making it among the hardest-hit neighbourhoods in Canada. Benjamin Tal, economist at CIBC World Markets, expects prices to continue to decline across the country until late in 2009.

22%

## VICTORIA

Home sales in Greater Victoria have sunk to 1999 levels. In November, 268 homes sold in B.C.'s capital district, down from 623 a year earlier. And things are expected to get worse. Re/Max Canada predicted in December that Victoria homeowners can expect average prices and numbers of home sales to decline more in 2009 than in any other large Canadian market. Prices of single-family dwellings have already dropped \$40,000 on average, to \$524,128.

12%

## SOUTHERN CALIFORNIA

Bargain seekers are finding homes in locales like San Bernardino, Sacramento and San Diego for almost half their 2006 value. Many homes sell at auctions that often require buyers to close within days, but bidders still get a chance to inspect the properties. In 2008, more than 50% of Golden State homes sold were foreclosed properties. The median house price in San Bernardino in the fall was \$227,200 (U.S.), compared to \$375,100 (U.S.) a year earlier.

40%

## ARIZONA

In Scottsdale, "stucco mansionettes" that sold for \$765,000 (U.S.) in 2007 were listed at \$370,000 (U.S.) in December, 2008—with bigger discounts almost certain. Investors looking for profits in Arizona can also bid online to pay homeowners' unpaid property taxes and receive either payback (with interest) from those in default or take over ownership.

28%

## LAS VEGAS

What do you call a town where half the properties are worth less than their mortgages? Vegas. In a city with a foreclosure rate seven times the national average, sellers can't get anyone to look at homes, let alone buy. In one instance, a home had been on the market for six months without attracting a single viewer. Median home prices fell from \$295,500 (U.S.) to \$211,600 (U.S.) between the third quarter of 2007 and the third quarter of 2008.

28%

## SOUTH FLORIDA

In Miami, nearly one in five residential mortgages is overdue or already in foreclosure. With properties recently listed for \$700,000 (U.S.) now selling for less than \$300,000 (U.S.)—and some attracting as little as 10% of pre-collapse prices—vulture investors have made South Florida prime hunting ground.

24%

Average one-year price decline

there were about 38,000 apartment units (almost all of them condos) under construction in Toronto last October. But sales of new condos are forecast to be just 10,000 in 2009, less than half the peak of 26,000 in 2007. Vancouver was second-busiest nationally last fall, with 19,000 units under construction. The disconnect there is similar to Toronto's: condo sales down by about half and roughly a 10% decline in prices last fall. Calgary, with 7,500 units under way, seems to have declined faster. A half-dozen high-profile projects were suspended last year—including the huge Gateway Midtown complex, even though more than 500 of its 650 units had been sold.

Lamb argues that the inventory of unsold condos will be limited. Thank the banks. After getting burned in the 1980s real estate boom, Canadian banks and other lenders have required developers to presell at least 60% of the units in a building, as well as 60% of a project's value, before letting them break

ground. Lately, some lenders have cranked up that minimum to 70%.

But construction won't grind to a halt. Lamb says banks are under pressure from governments, "and they're going to have to start lending money to someone." Who better than developers already in the game—like him, for instance?

Certainly, some developers will have to scale back. Lamb argues that some of Toronto's ultraluxurious new buildings were getting ridiculously expensive at the peak of the boom. The Rolls notwithstanding, he says he's a "mid-market" developer, and figures that \$450 to \$500 per square foot is a reasonable price for a small downtown Toronto condo (as opposed to maybe \$400 in the suburbs). Meanwhile, the average asking price at 1 Bloor during the 2007 frenzy was \$850, while Donald Trump was asking for an average of \$1,000 at his Bay Street tower (a steal compared to the \$5,000 he'd charge in New York, Trump said), and the proposed new Four Seasons Private Residences in tony Yorkville were even dearer at \$1,500.

By the way, knowing that developers have to presell to get financing, do you want a tip (albeit a self-serving one, coming from Lamb)? Buy preconstruction. True, the days of packed "insider VIP" launch parties at sales offices ended last year, but you can still buy before construction at, say,

a 20% discount. "To sell apartments from floor plans, you have to offer ridiculous incentives," says Lamb.

As for the mantra of "location, location, location," Lamb argues that "no neighbourhood is immune from the marketplace." But architectural style and the savvy and expertise of an agent can help buck a trend. That, of course, is what a tastemaker like Lamb would say.

Lamb apprenticed during the booming late 1980s and lean early 1990s with Harry Stinson, one of Toronto's first specialists in condos, then considered by many agents to be too down-market.

In 1995, Lamb set up his own firm and caught the trend toward New York-style loft condos by finishing off sales at buildings such as the Candy Factory, a pioneering renovation of a 100-year-old structure. He also hooked up with Context Developments, selling a series of striking buildings such as District Lofts, MoZo and Spire. "I think he has learned a lot along the way about design and architecture," says Context's Howard Cohen.

No longer content to just sell others' projects, Lamb got into the development side himself several years ago. As 2008 closed, construction crews were putting the finishing touches on Gläs, a sleek, black, 16-storey building on a side street near Toronto's nightclub district. Lamb has close to a dozen other developments in various phases, most in Toronto, but also one in Ottawa and three in the Caribbean. Gläs is in the clear—Lamb started selling units in 2005, and says he's sold 150 out of 163, far more than enough to cover the project's \$36-million cost.

For the moment, though, unfinished projects give Lamb and other developers a cushion. As an agent, Lamb's commissions dry up as soon as the market hits the skids, but as a developer, "I live on past business," he says. "Stuff I sold in 2006 and 2007 will close in 2009 and 2010."

By then, markets may rebound, and there will be a new pitch for why it's still a great time to invest in condos.



HOW HAS THE CRASH AFFECTED BAY STREET?



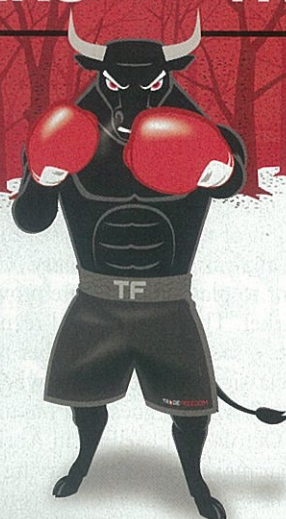
“  
Businesspeople are buying less, and holidaymakers are travelling less and buying smaller amounts. Last week, we were calculating, and compared to the same period last year, business had dropped 30%, and there have been rumours about layoffs.”

”  
KUMAR APPASWAMY  
49, foreign exchange dealer

THE BULL IS TRAINING FOR A COMEBACK

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