

# 12<sup>th</sup> ANNUAL REAL ESTATE ROUNDTABLE



FOR THE 2019 EDITION OF POST CITY MAGAZINES' REAL ESTATE ROUNDTABLE, WE TOOK OUR SHOW ON THE ROAD FOR A FIERY AND INFORMATIVE LIVE EVENT IN FRONT OF AN AUDIENCE OF 550 PEOPLE AT THE ROTMAN SCHOOL OF MANAGEMENT

## 2019 PANELLISTS

**MODERATORS:** Nikki Gill, Ron Johnson

### SEBASTIAN CLOVIS

Host of *Save My Reno* on HGTV Canada

### BARRY COHEN

#1 Re/Max salesperson in Canada

### BRIAN GLUCKSTEIN

Principal of Gluckstein Design

### LU HAN

Professor at Rotman | Research Fellow, Centre for Real Estate and Urban Economics

### MICHAEL KALLES

President, Harvey Kalles

### JENNIFER KEESMAAT

Former Chief Planner, City of Toronto

### BRAD LAMB

Developer, Lamb Development Corp.

### MARYAM MANSOURI HURST

Vice-President, Mansouri Living

### MICHELE ROMANOW

Dragon on CBC's *Dragons' Den* | Co-founder, Clearbanc

### BENJAMIN TAL

Deputy Chief Economist, CIBC Capital Markets

**NIKKI GILL:** Let's start with CIBC economist Benjamin Tal, who will offer his take on the current state of the market.



**BENJAMIN TAL:** Yes. You've only given me two minutes. That's not enough. So I'll go very, very quickly. There is something called the yield curve. The yield curve is the difference between long-term interest rates and short-term interest rates, and as you know, usually long-term interest rates are higher than short-term interest rates. Every time that it happened differently — namely what we call the inverted yield curve, in which short-term interest rates are higher than long-term interest rates — every time it happened, and it happened a few times over the past 20, 30 years, a year after, we had a recession. No exception.

If we'd had this conversation in October of last year, my answer would have been, "Oh, I don't know. It's not looking good," because back then, the Fed in the U.S. was talking about raising interest rates four more times in 2019.

The Bank of Canada was talking about taking interest rates from 1.75 to three per cent in 2019. They were extremely bullish, and I said, "Oh my gosh. They are going to invert the yield curve."

In November, December, they did a 180,

both of them. The Fed is telling you, "We are done." The Bank of Canada is telling you, "Almost done. Maybe one more. Almost done."

I suggest that if I can see from here, from Toronto, that the U.S. economy will slow down in 2020, because of the fiscal swing, surely the Fed in the U.S. can see that as well. So I believe in late 2019, the Fed will have 20/20 vision.

Do you get it? 20/20 vision. I think it's cute. I think they will cut interest rates, not raise interest rates.

**GILL:** We have been hearing about price drops in other cities such as London and Sydney. Lu Han, what does the market look like from a global perspective?



**LU HAN:** I think, from a global perspective, Trump definitely is not alone in terms of, you know, the market slowdown. There is a saying, all the happy families are alike; each unhappy family is unhappy in its own way.

I think that is a perfect analogy in housing markets too.

When we look at all those cities and think about how the boom occurred, well, basically, there are very similar driving forces such as very low interest rates and a very strong domestic economic growth, tight land constraint

and also the very strong interest from foreign buyers.

But now all these markets have been experiencing a slowdown, particularly in 2018, and each of them have its own characteristics. For example, when we think about London, you know, there is uncertainty caused by Brexit. When we think about Beijing and Shanghai, the Chinese economy has slowed down, and there's a lot of uncertainty about a trade war between the U.S. and China.

**GILL:** Barry, bringing it back to Toronto now, what do you see happening with the buyers here as we head into the ever important spring market?

**BARRY COHEN:** I'm a little bullish on the market. I don't project beyond a year because I don't think anyone could with great accuracy. But we've endured a lot of things. There's been a lot of influences in the last 18-month period.

**I can't think, in my 40-year career, where it all happened in such a small period of time, and look what we've endured.** I mean, the market itself has only gone down 4.1 per cent.

Detached homes haven't done as well. Detached homes probably are down 8.3 per cent, and condos are actually up 12 per cent. So, again, that's why I'm a little bullish.

I think that it's going to be more of a

balanced market, but it will lean toward the sellers.

**GILL: Brad, what about on the condo end? What are you seeing?**

**BRAD LAMB:** We have a shortage of housing right now in the city of Toronto, in the downtown core. We measure that up to Lawrence, down to the waterfront and between the DVP and Dufferin.

**There are less than 900 condominiums for sale in the entire city, and in 2015 there were over 2,100 at this time.**

So we clearly do not have enough property to sell here in the way of strata housing, and we have anti-development policies in the city and in the province that need to be changed. If we don't change those policies, we're going to have a worse situation than we have today.

**GILL: Jennifer, did you want to chime in?**



**JENNIFER KEESMAAT:** Oh, see, she knew I would want to follow Brad. That's been a trend from previous years.

Over the course of the past five years, we really focused on the approvals process and getting more and more units approved, and a very interesting thing has happened: that we got way out ahead to the building industry. So there's over 290,000 units that are approved in this city and not yet built. Now, why is that? Well, there's a whole variety of different constraints to actually getting those units built.

One of the big issues that I've been hearing in the industry is around construction costs, including access to labour and access to materials. So there's a very large project in the city right now that has just been delayed by almost a year and a half. Everything is ready to go. The financing is in place, the unions are all set to go, but it's access to concrete. Accessing concrete is the delay.

**So the project will be delayed by a year and a half because of access to concrete.**

What I think that really points to is that there's a whole variety of elements, whether it be the approvals process, whether it be the labour industry, that have an impact on how supply actually gets delivered in a city.

**RON JOHNSON: People want more affordable homes, and they want more affordable rents. I want to know, what would our panelists do to get us there? For this question, we begin again with Ms. Keesmaat.**

**KEESMAAT:** So this is a really important question, because the overall housing ecosystem, if you will ... there's an interrelationship between luxury [homes], homes that middle class homeowners can afford, new first-time homeowner units and then rental, social housing.

In fact, when we have a gap in any part of that system, people get bumped and moved around.

One of the big pressures, for example, on rental housing is that, when there was a tightening on the mortgage lending rules, more and more people could not reach, could not afford home ownership and stayed in rental

## HAVE FOREIGN BUYERS DISAPPEARED?



This gorgeous Saintfield Avenue estate is located in the very fancy Bridle Path neighbourhood, home to barons of industry, financial gurus and, yes, Drake. This 6,000-square-foot home includes a grand salon entry, stunning master bedroom retreat with sitting room and Juliette balcony, as well as a backyard oasis.



This stately Gordon Road mansion sits in an enclave near Bayview and York Mills. It features a grand two-storey foyer, cathedral ceiling and panelled library as well as a lush garden retreat.



This Frank Lloyd Wright-style home is located in Hogg's Hollow on May Tree Road and features an open concept layout with floor-to-ceiling windows and multiple walk-outs to the patio.

longer or no longer maybe aspire to home ownership. That has created this incredible pressure on our rental market in the city.

It's a risk when people cannot come into this city because they're completely blocked out from accessing housing.

This is one of the most fundamental issues facing the city: is that we need to recalibrate our efforts and shift into significantly delivering more rental, as well as more affordable rental, to build out the overall ecosystem of housing in the city and to provide stability in the overall housing market.

**HAN:** I totally agree with what Jennifer said. Supply is a very important but also a very hard issue to manage. Also, affordability. To retain Toronto as a global attractive city, we have to make housing more affordable, particularly to a younger generation. If we think about, you know, today compared to three years ago, how much more income you will have to have in order to qualify for buying an average home in Toronto. Well, I think you will have to have about \$160,000 as your annual income. Compared to three years ago, at only \$100,000.

Well, why do we have such a big increase?

I think at least one-third of that comes from these high interest rates and also the mortgage income stress test.

**JOHNSON: Brad first, then Barry.**



**LAMB:** OK. So it's inconceivable to me that there's 290,000 approved homes. I can tell you that there are no sites available in the city of Toronto for sale right now that are rezoned. I'd really like to dig deep in that number.

I can tell you that every day, every single day, my company fights tooth and nail to get attention from this city.

Every week my lawyer calls the city. Every week I call my lawyer screaming at them. It's nonsense. It takes 10 years to get a building completed in this city now. From time of buying to struggling with the city, struggling with the province, struggling with permits, getting financing, selling and building, it's 10 years, 10 years of my life for one building.

We have a serious problem in this city dreaming up new techniques, new zoning techniques, new rules to stymie development.

The new HCDs that are out there in the city, the "Historic Control District" in the downtown core, everything built before 1950 is now historic. It's madness.

In addition to that, there's a new TOcore program that's going through different levels of approval that happened on Jennifer's watch. This is the most draconian piece of legislation for zoning in the history of the world. I'm not kidding.

**JOHNSON: All right. Why don't we let Barry hold on for one second.**

**BARRY COHEN:** Yes, I'd rather watch Jennifer sort this out with Brad.

**KEESMAAT:** Well, I won't be long, but let me hit on a couple of things.

We've done something really clever with our Heritage Conservation Districts, and I'm very proud that I brought in a planning approach where the city is now advancing five Heritage Conservation Districts annually into this, that we are protecting heritage while intensifying sites.

So you're seeing more and more the new projects where you have a heritage building, and the heritage attributes are protected. We're adding new office buildings, but we're keeping the character of the street. We're protecting the street for pedestrian life.

With respect to TOcore, prior to TOcore, we have bigger setbacks because we have so many people living downtown: 75 per cent of residents who live right in the downtown core walk or cycle to work, so there's a tremendous amount of pedestrian volume. We need wider sidewalks. How does the city achieve that? By setting back the building and creating a wider public realm.

So these are things that come hand in hand with creating a more livable city. Does it mean that some development sites are no longer developed for a condo? Yeah, absolutely. But no one has an entitlement to put a condo anywhere they want.

In TOcore, we secured a 25-metre separation distance between towers in order to protect sky view and sunlight in the downtown core. These are one of the reasons why people are flocking to live in Toronto: is because we have policies that are protecting our quality of life. So the best projects, let's build them the fastest.

**JOHNSON: Michelle, what opportunities does this market hold for millennials trying to get in?**



**MICHELE ROMANOW:** Well, I think it's getting to be a harder and harder market largely for millennials. I mean, rents went up 10 per cent last year. The average one bedroom condo in Toronto is now \$2,100.

So people are delaying their first home purchase. They want to live in the inner core, because all of these new tech jobs are really in the inner core.

The other thing that's driving this that we haven't talked about is the effect of short-term rentals. Now there are property managers and owners that can have, you

know, multiple units that they're renting out on a short-term basis versus a long-term basis, which is, again, driving supply down and driving rental rates up.

So I think what we're going to see is a lot of what's happening in the big cities, where people are looking at all sorts of creative options for living space.

**JOHNSON: Sebastian, what are you seeing in the renovation market?**



**SEBASTIAN CLOVIS:** You know, people seem to be opting to renovate their homes for themselves and to stay in those spaces, rather than trying to put them on the market and renovate the homes for resale. That's just, it's difficult to resale. It's a very high-priced market right now. There's a lot of land transfer taxes and things that go alongside that.

Obviously, income suites are a huge thing. Everybody is trying to get some type of income property in somewhere, whether it's in the basement or it's in the attic. Or if they have a garage out back, they're trying to convert it into some type of livable space or something they can rent. So every house I go into that has a garage, people are asking about laneway homes and can they convert these type of properties.

I'm also seeing a lot of people who are buying homes as friends, and I guess co-living, that would be, rather than couples living in homes and renovating the house.

There's a lot of people that are moving in together as friends. What I end up doing is renovating a house and trying to split the house up in a way where it's still a single-family home, but there's a lot of privacy built in because there are friends in there who aren't necessarily together.

They're trying to maintain their privacy and their autonomy from each other, but they can't afford to buy homes by themselves. So they're pooling their money together.

**JOHNSON: Brian?**



**BRIAN GLUCKSTEIN:** You know, we have two sites that we have recently converted from condo. I think we can all agree condo rentals is not secure living. We've seen that. I've seen that even with clients, even at the luxury level, that thought they're going to rent this luxury condo and they're going to be happy, and then the owner sells it on them.

So we can't really view condominiums as secure housing.

People need secure housing that they can rent. And if they want to spend their whole life and never want to buy something, or not buy something in the city, maybe they rent in the city and they buy a country house, because that's what they can afford, and it's a lifestyle choice. They don't have to own a house in the city.

So we have two projects that were underway, and we did a 180 and said we're not marketing it. We're not building the sales centre. We're going to purpose-built rentals. That was a big change for us.

**TAL:** The question is where we are in the cycle at this point. Up to 2016, I was able to explain



Jennifer Keesmaat gets into the debate while Benjamin Tal, left, and Sebastian Clovis look on

everything in Toronto. I have all kinds of models, supply, demand, numbers. I was able to explain, up to 2016. **Something happened in 2016 that all my brilliant models were unable to explain, and if I cannot explain something, it must be bad.**

I'm convinced that, in 2016, we have seen a wave of speculations in Toronto in the condo space. I'm convinced that that's the reason why the market was so crazy until the first quarter of 2017. That's when gravity started to take place, and that's when government introduced their 16-point Fair Housing Plan, and that's when the market started to go down.

I suggest that what we are doing now is not a free fall. Let's remind ourselves, the market is slowing. It is expansive, but it is slowing. It is undoing crazy years, as opposed to a free fall.

Now we have to look at two segments of the market. Highrise and low-rise. Within the low-rise segments, which is the number one casualty so far of B-20 [the federal government's mortgage income stress test], there was pre-sale and resale, yeah? The pre-sale market, it's dead. It's absolutely dead. People are walking away from a \$80,000, \$90,000 deposit. They are sitting on inventories. They cannot get rid of them.

Remember 2016, the crazy year? Both prices went up, the resale and the pre-sale. But the pre-sale went up much more. The gap became huge. We haven't seen this gap before. Now it's actually correcting, and the prices of pre-sales, new construction, is falling much faster than the resale.

The highrise segment of the market, exact same thing. We have seen both prices going together, together, together, and guess what? Huge gap between pre-sale and existing. Guess where we are now? At the peak. It hasn't gone down yet. I believe that the condo market will slow down in the pre-sale market. It will slow down, because we have seen condo space rising 56 per cent in terms of price: 56 per cent in two years. That's way too much.

The gap is very high, especially in Toronto. I suggest that will slow down, and that would

be a good thing. I don't see a free fall here.

More than 50 per cent of buyers, as we all know, are investors. Some people will tell me 60, 70 per cent. It depends on the project. Forty-five per cent of those investors are now in negative cash flow.

It's not that they're going to sell, because they are sophisticated investors, and most of them know that, if you want to have a chance for your son or your daughter to live in this city 10 to 15 years from now, you're definitely buying now, because if you think that this place is unaffordable now, you wait.

**JOHNSON: All right, let's go to Michael, and then we'll finish up with Brad before we talk about government intervention.**



**MICHAEL KALLES:** People aren't talking about Class A [top quality] office space in the core where there is a 2.7 per cent vacancy rate, which is the lowest in North America. In fact, last year there were more tech jobs created in Toronto than in Silicon Valley and Seattle combined.

I think what we have to do is focus on the fact that 2016 and '17 were unsustainable markets — 2018 was a very good market. It just was a real market. It was sustainable.

I have a saying that the more you see the world, the better Toronto looks, and I mean that geopolitically for a thousand different reasons. Toronto is an incredible world-class city. So I'm very bullish in the market. I think Benjamin brought up a number of good points, but overall, I think we're in for some good times. But I don't think we can have the expectations of '16, '17.

I look at our company, 2018, we were down 13 per cent. But it was the third best year we had in 61 years. I would sign on to 2018. If I could do it for 10 years straight, I would sign that contract right now.

**LAMB:** I really focus on the core. I can tell you that the gap between new and used housing has always been about five to 10 per cent. The reason why there's always been a gap is because from the time you buy to the time you

get your new condo, it's about five years. So consumers can put 15 per cent down [on the purchase of a condo], and over five years [before it's completed], and they could see a 25 or 20 per cent increase in prices over that time as we see five or four per cent increases a year compounded.

They're about \$1,050 a foot. So there isn't really this decoupling — Benjamin, sorry, there isn't — not downtown. It may exist in the 905. It's entirely possible it does. But I can tell you in the core that's not true.

The market in the core is not strong. I would say it's just right. If you see a place to buy, you have a couple of weeks, generally, to make a decision and buy. It's not a buyer's market. It's still a bit of a seller's market.

**JOHNSON: I knew this would be a popular question. We're going to squeeze in two more comments. First Jennifer and then Sebastian. Then we'll wrap that up.**

**KEESMAAT:** So two comments. It's really critical that we continue to protect, in certain areas of the city, access to land for employment growth, precisely because these two things go hand in hand.

I'm glad that the geopolitical context was hit upon because one of the reasons we've seen so much tech growth over the course of the past 12 to 24 months is in fact because of the tightening of immigration policies in the States. The openness toward immigration is essential to driving the tech industry in this city. So that's something not to take for granted as part of our culture as a city that is directly tied to the long-term sustainability of the economy of the city.

The second piece is with respect to affordable rental housing particularly, because I think, when we talk about rental, we need to separate out market rental housing from affordable rental housing. We know that there's a segment of the housing market that will not be delivered on a for-profit basis, to Brad's point. You can't make a profit doing it. Yet we also know that there's a portion of the population, and increasingly it's becoming a broader bandwidth, that cannot afford to access affordable rent in this city.

This is where there's an opportunity for using city-owned lands in a really, really important way that we can partner with the private sector to ensure that we're delivering housing. Jobs for young people, many of those jobs today, you cannot afford housing in this city.

**Some young people have the option of staying longer with their parents. I fully expect my kids to move back in with me one day.**

**CLOVIS:** That's it. I love what you just said right there. I got to say, you know, I deal with families every day, basically, doing these renovations. I see how difficult it is and how hard homeowners have to wrestle with raising their families in these houses and trying to renovate these homes and stretching their dollars as far as they can.

The debt that people are carrying is huge right now, you know? People aren't able to execute the type of renovations they want because of that debt. I mean, I'm not a huge numbers guy, but I'm pretty sure that the

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**What makes one agent more effective than the others?** The 7 most important variables that differentiate Realtors are: 1. Experience and Proven Results. 2. Honesty. 3. Professionalism. 4. Strong Communication Skills. 5. Collaborative Skilled Negotiator. 6. Marketing Expert. 7. Formidable Company and Personal Reputation

**What will appreciate faster – houses or condos?** Both houses and condos will appreciate well. I have always believed that owning real estate is beneficial – there is a solid value in it. This applies to those who are just entering the market, as well as downsizers who are moving to smaller living spaces.

**How do you feel about bully offers?** A bully offer is a pre-emptive offer from a buyer to the seller to purchase a property listed for sale that is submitted before the date that the sellers have indicated they will look at any offers. This is quite common in the Central core. Having represented both Sellers and Buyers in “bully” offer situations, it is very important your Realtor is seasoned, ethical and has an acute understanding of the current activity on your listing as this will determine whether the Seller should accept or reject.

**What is your best advice for first-time empty-nesters?** Many of my clients who are downsizing for the first time have a similar road block: they feel overwhelmed and don’t know where to start. I work closely with reliable professionals who specialize in downsizing, organizing, moving and setting up in the new home. Having these qualified individuals, plus an experienced Realtor, on your side can make the process simple and stress-free!



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**What will appreciate faster right now: a condo or a house?** Condos are increasing in value at a record setting pace but that is a lifestyle acquisition that is not for everyone. In the GTA they have gone up substantially in the past 10 years so now is a good time to purchase a condo which will allow a buyer to get into the housing market and earn potential equity. However, a home that demonstrates pride of ownership will always deliver exceptional returns.

**What is your best advice for first-time buyers?** Go to as many showings and open houses as you can so you understand the current market and what you can afford. Do the research, try not to get emotionally attached to a property, set a reasonable budget and do not be afraid to ask your agent for advice.

**What makes one agent more effective than others?** A good experienced agent will deliver transaction security – a strong offer, iron clad clauses within the offer, a good deposit, and clear & concise buying or selling directions.

**How do you feel about bully offers?** Just like the name implies bully offers do not give everyone a fair chance so they are not my preference. That being said I have to respect how a person wants to sell their property. Some sellers do not enjoy the traditional sales model of selling a property and would rather just get it sold.

**Do large deposits make a difference on presentation?** It is not essential but it can be more attractive to the seller. Not everyone can gather a large deposit so in that case I use other aspects of the offer to make it more appealing.



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[household] debt is around 170 per cent.

So I'm not saying that we're going to crash any time soon or, if there's a recession, it's going to happen. But if it did, we're in trouble.

So as I'm listening to this panel, you know, I can't help ... but my heart kind of hurts a little bit, because these homes are not just about an investment vehicle.

It's not just about how much money can we make off of selling these homes and investing in these homes and flipping these homes.

The last 10 years, people have been flipping homes left, right and centre and driving the prices through the roof. We're at the point now where the houses are almost too expensive to flip.

I think someone was saying just a minute ago, 60 or 50 per cent of the people who are investing in the homes are just investing. They're not even moving into the homes. This is not good. The homes in this country and in this city are for people to raise families in, and we need to be mindful of that. We need to think about that, going forward into the future and not just how much money we can make next year flipping these homes.

What does 2030 look like? We need to set up for that. We need to make sure that the streets have sunlight and that the people can walk on the streets and there are places to go. It's not just an investment model. This is where we live.

**GILL:** The next section we're going to talk about is government intervention, and Benjamin, we're going to start with you. Where do you stand on the stress test?



**TAL:** OK. First of all, let me say something about debt.

Listen, the debt to income ratio is a Mickey Mouse indicator. It's not a good indicator, and I won't get into why. It's just a very popular indicator that the media uses, but it tells you nothing.

So if you really want to understand the debt situation, you have to go much deeper.

Not to say that we are not in a high level of debt, but the number that is quoted, 170, is really exaggerating the situation.

**CLOVIS:** That's Stats Canada.

**TAL:** Of course, but the meaning of this number is nonsense. No economist is actually looking at this number because it means nothing.

This is not to say that you are not right. You are absolutely right. We are sensitive to high interest rates. We carry too much debt. We just have to be careful with what we are quoting because those simple numbers try to simplify a much more complex situation.

Now, the issue is that clearly higher interest rates slow down the market, and this market has been regulated for the past 10 or 15 years.

Every two minutes you have something else, you know? Now it's the non-insurance segment of the market. I supported B-20. Now, if you don't know, B-20 is when you raise the qualification rates by 200 basis points on a five-year rate. So you pay the five-year rate, but to qualify, 200 basis points higher. I supported that because I think that we should have saved many Canadians from

## T.O.'S LANEWAY HOME GOLD RUSH



Clockwise from top: a rendering of Fung's laneway suite; two other laneway designs

Laneway homes are trending in Toronto as work has begun on the city's first laneway abode under its new bylaw that clears the way for secondary suites on hundreds of kilometres of laneways. Vanessa Fung is the architect behind the first suite. Although she described the lead up as a "hair-pulling" process, it is happening. And to help navigate the new rules, Fung even set up a side business called Ukkei, for those interested in creating their own new laneway suites. Some industry insiders think the addition of laneway suites could increase the value of laneway homes drastically.

themselves. Totally agree.

However, 200 basis points, who came up with this number? Somebody in Ottawa woke up one morning and said, "200 basis points." There is no science behind this number.

The point that I'm making about B-20, is to make it flexible. Who says it should be 200 basis points, especially when it was established when the bank rate was 75 basis points lower than it is now? So it went up 75 basis points. Now we're still with the 200 basis points, which is just a number.

Make it more flexible. So that's the next war. The first war was rent control, and we won this war [when rent control on new builds was overturned by the Ford government]. The next war will be B-20.

Again, we have to save Canadians from themselves. But, at the same time, we have to be careful with the way we look at the situation. We don't want to kill the market.

**GILL:** What impact has that stress test had on the growth of private and alternative lenders?

**TAL:** Well, I think that it was a game changer. I think that we have seen a significant slowdown in the market.

If you ask me what is the number one factor, it's B-20, then interest rates, then gravity. That's the way the market worked. Now, the issue is, and that's a negative for B-20, is that you go to the bank, the bank says, "Sorry, you are not qualifying." What do you do?

You have a deposit. You need something. You go to alternative lenders.

Subprime. Alternative credit. The fastest growing segment of the mortgage market now, those are alternative lenders.

It's now roughly 10 to 20 per cent of the market, up from about five, six per cent.

That's a conservative estimate.

So what we are doing here? We are transferring risk from the regulated segment of the market to the unregulated segment of the market.

We are transferring risk from where there is light to where it's dark. I don't want to wake up five, seven years from now with a subprime crisis in Canada.

So I say, you close a door here, you open a window there, make sure that there is light

there.

Let's regulate those alternative lenders the way we regulate banks.



**COHEN:** With feet on the ground, that's exactly what's happening, what Benjamin is saying, because even if you have the

proper down payment and you can't qualify with the bank, then you will go to secondary lenders.

You know, the brokers are making a living, yeah. But the [private] lenders are charging three per cent fees where they used to charge one per cent and 1.5 per cent, maybe two per cent. Some of them are getting five per cent fees on top of rates between six and 13 per cent. So, you know, they're in demand.

What kind of crisis are we going to be looking at when those mortgages come up?

**KALLES:** I was just in the U.S. for a real estate conference, and there's an amazing statistic. They said that 80 per cent of Americans cannot handle an unanticipated \$1,000 bill. So your kids need braces or something comes up and you need \$1,000.

So you think about the stress test, and like Benjamin, I'm with the regulation of B [private] lenders.

They came out with a statistic, again at the same conference in the U.S., and they said that the net worth of the average renter in the USA is \$5,000.

The net worth of the average homeowner who has owned a home for 10 years is \$330,000.

So there is a difference. Home ownership creates capital appreciation and value, and it's something that cannot be missed. So we have to think about the fact that the stress test prevents people from getting into the market, specifically first-time homebuyers.

**ROMANOW:** It's a forced savings account, is the way you can actually look at that. When you buy a home, instead of forcing, you know, people to put money in their savings accounts every month, you're forcing them to put it on a mortgage. So even without any appreciation, it's been a very good tool to have people create wealth.

**GILL:** Sticking with government intervention, what other things should the provincial government be looking at for its new provincial housing supply action plan? We'll start with Maryam.



**MARYAM MANSOURI HURST:** So, if it's OK, I'd like to take a step back. We've had some great discussions here.

One thing we really haven't touched on is we've been focusing on the urban core and the development that's been happening there. But I think, because of the rapid increases in pricing, we are going to see a shift to the 905 when it comes to development form.

I agree with what Benjamin said in terms of the pause to the market in the low-rise realm. But developers right now are really looking at the properties in the 905, specifically in locations that are closer to transit, where the development form is actually increasing in density.

So I think there's going to be a shift, and the affordability for buyers is going to start to occur more outside of the urban core into the suburban nodes that we see in the city, with 14-, 15-, 16-storey projects.

We also have some changes to the growth plan that have come up as a result of Doug Ford's new growth policy, and I believe that the changes that he's making with taking farmland and converting them to lower density forms is the wrong one.

Yes, it's cutting red tape and it's, you know, in principle or in theory, assisting in creating more housing in the suburbs.

But taking farmland and converting it into urban sprawl is not, in my opinion, the right way to proceed.



**KEESMAAT:** It raises a really important and interesting question around many of the nodes that have transit access, that do not yet have a denser urban form.

A really great example is at Wilson and the Allen Expressway, where we have a transit, we have a subway situation, we have big box development, we have surface parking lots. We've already got subway access. We've got subway capacity, and we're underutilizing the land.

I think we've already crossed the threshold in the downtown core, where we've figured it out, and there's a momentum around adding density in a really significant way in our core.

The next big opportunity for both the City of Toronto and the 905 is really figuring out this connection, as Maryam says, between the transit and creating enough intensity and attracting some employment growth to those nodes.

I'll add just one other little piece, which is, because it's linked, this idea of the provincial government uploading the subway, that is based on the idea that the subway should extend into the 905, which, if you extract that idea, you think, well, yeah, that makes sense. We want better subway infrastructure in the 905. But there's a challenge, of course, which is that transit functions best as a network rather than long singular lines.

So it's best if people have to transfer once so you can move in an L on the system. What happens is, if you continue extending the subway infrastructure into the 905, and this is already happening by Finch station on the Yonge line in rush hour, the trains are full. You actually begin compromising the infrastructure where you already have the density. You end up in this crazy Catch-22.

**For that reason, the idea of extending the subway line to Vaughan, it's an absolute absurdity. It will lead to system failure, which we already have, and we've seen it this winter.**

So the risk, of course, is that we just continue doing that, instead of building out transit infrastructure everywhere.

Vaughan needs excellent transit, but just extending it into the core of the city first of all consigns the people who live in Vaughan to a long commute, and secondly, doesn't create a complete community in a city in Vaughan.

Vaughan should be focused on attracting employment growth in Vaughan and creating the opportunity for people to both live and work in Vaughan, not unlike Mississauga is focusing on doing that in their downtown core.



Condo king Brad Lamb explains the hurdles facing developers to the audience

**LAMB:** The issue here now is how are we going to deliver the amount of housing we need downtown with the gridlock we have?

Last year a very important board for us as developers, very unpopular, I think, with consumers, was the Ontario Municipal Board (OMB). It was eliminated by Kathleen Wynne, replaced by something called the Local Planning Appeal Tribunal (LPAT).

Now, the problem we now have as developers, when we take a project to the city, there's no to and fro. The city and the councillor, and hence the ratepayer, completely control the look of the city.

**What's happening now is that development sites aren't selling.** Lenders aren't lending on land anymore, because they see it as being too risky, and developers aren't taking development sites to the city in the same number as we were doing before.

I can tell you that I have 15 development sites that we're ready to go with, and there's five right now at the city that are all going to the OMB. The rest are just sitting. They're just sitting, waiting, until we have some kind of an understanding of how we can move forward with a fair negotiation.

So the answer to your question for me is that the first thing that Doug Ford has to do is to bring back some form of court that looks at evidence and weighs the evidence and weighs in on a development when we can't make a deal with the City of Toronto.

**GILL: Lu?**

**HAN:** When we think about the home ownership, in Toronto 55 per cent of the households today own homes, and another 45 per cent, they rent. With high housing prices in Toronto, is it really better to own a home versus renting a home?

I'm thinking, if I face such a high entry barrier with such tightened government regulations, will my life be much, much happier if I own a home instead of just renting all my life? My answer is, I'm not sure.

Maybe I will live a perfectly happy life if I just rent to, you know, stay in the city core. But from a government's perspective, why does a

government want to promote home ownership?

So what is the real benefit from promoting home ownership, increasing home ownership, say? Suppose we have 90 per cent of home ownership in Canada in Toronto. That's something that we're really trying to pursue. From an economist perspective, I do see there are a lot of benefits.

For example, like Michele said, it helps to promote savings. In addition to that, by giving a stake, by giving a piece of property to the citizens, the citizen will become a better citizen. So you are going to have better neighbourhoods with less crime, with better schools and with nice amenities because people, they really take care of where they live.

So there's a lot of benefits. But all these benefits are based on the equity reasons, not really based on efficiency reasons.

So when we think about all these policies targeting the housing market, they're not really achieving the purpose of making housing more affordable.

**JOHNSON: What impact do affairs outside our borders, such as America's trade war, have on the luxury higher end home market?**



**COHEN:** Well, it's significant with what's gone on abroad.

You know, we've heard about the Asian market, where government there is reducing citizens' ability to make foreign investment, and the mortgage qualifications here.

Before they used to be qualified on a loan based on income abroad. Now the income has to be local. Makes sense.

In addition, you see the Middle East and Iran, where loss of currency, due to U.S. sanctions, makes it hard for them to buy a house. So there's a lot of pull back. There's a 60 per cent loss of ability to purchase.

In the luxury market, you have to understand that the Toronto real estate, when they report the amount of sales and the ups and the downs, you know, the luxury market really represents five per cent of that statistic. So it's not

really a well-reported statistic. But we see things, you know?

We see the wealthier can sell, you know: a \$10 million house is now going to \$11 million. But you see everything below that compressing, and you know there's money on the sidelines. But they're not going to purchase because it's a wait and see. So it's basically softened the luxury market.

**JOHNSON: Is the tax on foreign buyers still warranted?**



**HAN:** The foreign investor tax, you know, this is something that I really want to study. But so far we don't really have the good data to

give us any sort of definite evidence in terms of how much foreign demand is really reduced by this specific tax. Although I think the foreign investor tax is targeted at foreigners, but I feel like the real impact is actually on the local homebuyers here.

When I'm saying that, I mean a foreign investor tax really sort of has a huge impact on household expectations. If you think about two years ago or three years ago, right, a lot of buyers rushed the market. They rushed the market. **There is a fear there, and the fear is for missing this great housing boom.**

Now there is still a fear among the homebuyers, but that fear is about, you know, I don't want to step into the housing market too early, right? I don't want to overpay. So people are getting more cautious. They're watching the market there on the sidelines, and there's a fear about that.

I think foreign investor tax essentially is ... the real impact is on people's expectations.

When people bought a house in Toronto three years ago, they were not just buying a home in Toronto. They were buying this city, and when they buy that, they believe that there will be a lot of foreign investors who want to invest in the city, and therefore, when they resell their price in the future, they will get much higher capital gains.

Now, when they look at all these foreign investor tax, when they look at, you know, reduce the demand from foreigners, they will think about, if I'm going to sell my house in the future, will I still get the same high gross as I expected before?

So what I'm trying to say is this type of tax, you know, the real impact through the expectation, you will see the very small change in the expectation is going to have very large, disproportionate consequence on the house price, and that's what I think the foreign investor tax is doing on the housing markets here.

**JOHNSON: We're just going to finish up with Benjamin, and then we're going to do our next question.**

**TAL:** Yeah. Two points here. First of all, I totally agree. I think the tax on foreign investment is not really the issue. The issue is the impact on domestic buyers because I think it's not the tax. It's what people believe the tax will do. That was the main factor.

We did a lot of focus groups with investors, and they told us it's just the cost of doing business. It [the foreign buyer's tax] is not a major issue for them. What's really much bigger than

that is what's happening in China and the U.S. and Trump. That's a big story. Very, very important, and two minutes on that. There is something called Made in China 2025.

It's basically a plan that the Chinese are not shy about. They say, "By 2025, we, China," and they give you a list of sectors in the high-tech sector, and basically they say, "We want to control AI, 3D printing, all kinds of stuff. We, China, by 2025, we are going to control it globally." They are not shy about it. That's the plan.

Now, if you look at what Trump did, the first wave of tariffs on China, \$50 billion was imposed not on Walmart stuff. Not T-shirts. Seventy-five per cent of this tariff went directly to Made in China 2025. What he's doing is brilliant. **This is a brilliant trade policy because it's targeting where they are most vulnerable. Their future.**

This is a brilliant policy. But, of course, he has no clue about it. It's all his advisors. What's the connection?

The connection is the following. The Chinese are trying to buy time. One of the reasons why I'm optimistic about China and U.S. reaching some sort of agreement — and it seems that the market is starting to reach this conclusion — is that they look at things from a long-term perspective.

They say, "Made in China 2025? Let's call it '35. Trump is a blip. We'll ride the wave."

**JOHNSON:** As our last question, because we're in an educational institution (Rotman), what piece of advice do you have to offer the students in the audience in terms of the future of the Toronto real estate market?

**KALLES:** Well, there's a great book: "The Apprenticeship of Duddy Kravitz," and it says, "Buy land. They're not making any more of it."

So someone gave me great advice 26 years ago. They said, "The best time to buy is yesterday. The second best time to buy is today, and the best time to sell is never."

**COHEN:** I think, you know, a new buyer could look to the 905 exchange, areas where real estate isn't so expensive, but will have better growth in the future because the growth has been really central Toronto and has been more of a depression in the north of Highway 401, the 905, the 705s. So look to north for an investment.



**ROMANOW:** My advice as an entrepreneur is always to jump in and to figure it out.

As a macroeconomic factor, our currency has been 30 per cent weaker to the U.S. dollar for now almost four years. So what I liked about this conversation is we actually talked about a lot of these factors at play. I'm not sure that these American companies are going to continue to put all of these jobs here if that actually changes. I think that has a way bigger effect than most people are giving it credit for.

Politicians are super excited when Amazon or when Uber is opening up another head of-

## LIBERALS TO HELP FIRST-TIMERS

The 2019 federal budget, announced in March, includes an affordable housing plan for first-time homebuyers. Here are the key points:

- A proposal to increase the Home Buyers' Plan RRSP withdrawal limit from \$25,000 (set 10 years ago) to \$35,000
- A shared equity mortgage for first-time homebuyers with the Canada Mortgage and Housing Corporation where CMHC will offer a 10 per cent shared equity mortgage for a newly constructed home and a five per cent shared equity mortgage for an existing home. Eligible first-time homebuyers' criteria:
  - a household income under \$120,000 per year;
  - an insured mortgage with the CMHC; insured mortgages are those where the down payment is less than 20 per cent of the home price;
  - the insured mortgage and the incentive amount cannot be greater than four times the homebuyer's annual household income.

Tim Hudak, CEO of the Ontario Real Estate Association and former Ontario PC leader, was positive about the news overall, stating that it was a step forward, but that there was more work to be done. "The assistance for Canada as a whole is probably set at the right level, but for more expensive markets like the GTA it is very modest," he says. "They've opened the door. It is set to kick in this fall, and hopefully they can adjust the level given the feedback they've been getting regarding the GTA and Vancouver."

### CMHC FIRST-TIME HOMEBUYER INCENTIVE

	INSURED MORTGAGE No Incentive	INSURED MORTGAGE With Incentive
HOUSE PRICE	\$400,000	\$400,000
DOWN PAYMENT	\$20,000 (5%)	\$20,000 (5%)
INCENTIVE		\$40,000 (10%)
MORTGAGE	\$380,000	\$340,000
MONTHLY COST*	\$1,973	\$1,745

\*Assuming an amortization period of 25 years and a mortgage rate of 3.5%

fice here, and then we have Sidewalk and people are not impressed with that. But they're doing something very indicative.

So, ultimately, I think the way to think about this is we need to back our Canadian companies, because the IP [intellectual property] value is usually worth four times more. Then, other than that, we need to have a system. But I would keep looking at these big macroeconomic trends because I think that's going to have a much bigger effect than we're giving it credit for.



**CLOVIS:** For everyone who is looking to buy a home, I think the one thing you want to look out for is the homes that are not built well or built by contractors who haven't applied for the proper permits. So when you're buying a home, and you see that there's a new renovation — if people haven't been living in there, it's a brand new renovation — make sure you

ask for your permits to see that those things were done correctly.

**Look for cheap materials in the spaces. Look for the cheap pot lights, look for the cheap flooring, look for the cheap appliances** because any time you see people putting in cheap materials into houses that probably means they didn't do the due diligence behind the walls, and that stuff has a real major effect on your health and your family and, of course, the longevity of your home.

**MANSOURI HURST:** So if you are interested in real estate, I recommend finding the niche that you're interested in. There are so many aspects to real estate. So find your niche, and try to find a mentor or someone in the industry that can help guide you and inform you on the best way of achieving that goal.

**KEESMAAT:** So on a completely different thread, I would say that something we haven't

talked too much about on this panel today, but is paramount, is that we are living in a rapidly changing world as a result of climate change, and everything that we do needs to be infused with that lens.

**To just flip that to buyers, it's not a coincidence that I'm an urban planner and I live at a high point in the city.** We're going to see a significant amount of flooding in the future, and we need fundamentally different infrastructure. But when you're buying a home, look at the topography of the city. If it's not at a high point, reconsider. Flooding is going to be a significant issue in the future in this city.

**TAL:** That was scary. I'm trying to think where I live now.

Very quickly, I think that I look at the real estate from an investment perspective, and am I going to invest real estate? Now, short-term, as I told you, I'm not extremely bullish. I think that we'll continue to slow down.

I think that the present market is in slow-down, which is good. It's all very good. I think that if you look at 10-, 15-year horizon, if you think that this place is unaffordable now, you wait.

It's going to be much less affordable, and to me, the fastest growing segment of this market will be the rental market because the rental market is the only solution to this madness.

**GLUCKSTEIN:** You know, I look at properties that don't necessarily have the potential to development that developers will want. Buy those properties, create your own development, hold onto those developments, maybe even live in those developments.

I've seen a family portfolio go for over 60 years where a building was bought every year or two, and I'll tell you, that was the best investment that ever happened. These were modestly priced buildings that were just improved over time.

**HAN:** One big change in this business is that there is a lot, lot more data now available, where 15 years ago you would have not even imagined those data are possible. That data actually provides a lot of exciting opportunities. If you can analyze the data, if you can exploit the data, I can guarantee you, you will find very, you know, profitable business opportunities, and those data will also generate analysis that will help us better understand, also inform, the policy debates.



**LAMB:** I think that what you should do, you should buy a place to live. You should buy it when you want to buy it, when you're ready to buy it. Buy it and not count the dollars you make every year. Buy it and put it away and have a life. When you wake up 25 years from now, your mortgage will be paid off, and I guarantee you the house will be worth way more than you paid for it, and that's probably going to be the biggest thing driving your retirement in the future.