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2014 REAL ESTATE ISSUE

As we convened our seventh Annual Real Estate Roundtable, Toronto's market has continued to soar. Prices are high, inventory is low. Here's what the GTA's top market experts had to say about 2014. Story: Leo Petaccia

POST CITY: So here we are. Is this the spring market that we'll finally see a slowdown? Let's just go once right around the table, starting with Harry.

Harry Stinson: I think the prices will hold, but it'll slow down, and it'll be more selective. Some places won't finish. Some places rose with the rising tide, and when people get fussier, which they are now, they won't necessarily sustain the numbers. But the really well-located ones that are properly and well sponsored will still interest the consumer. I don't see a crash.

Paul Miklas: Pricing will definitely hold. It'll really dictate on how much product comes out off the market over the next little while. Right now there's been actually not a lot of product; therefore, it's actually created a lot of bidding wars on some of the product just because there's a lack of it. If we start to see more product coming on market and you start to see the areas breaking up, you might start to see the numbers come off a little bit instead of seeing these overinflated numbers.

Right now in [Don Mills], which amazed me, you had a semi-detached that went out onto the market at \$660,000. It created multiple bids. It was just a very light little renovation done on it. They collected \$730K. The same product, back a year ago, was on the same market at \$630K. So I mean in the lower-end stuff such as the semis and the townhomes, you've seen these great gains. When you get to the higher-end product, it's a little bit more stable.

Brad Lamb: Yeah, I'm more optimistic this year than last year. I think that the sort of worst is behind us in terms of the govern-

ment interference, which is really, I think, the major cause of any kind of instability over the last year and a half. So I think that house prices are going to rise substantially this year. Single-family home prices will continue to rise substantially.

Condominiums will probably level off. There's a possibility that some pricing in condominiums might fall a little bit. It's the only market that is able to deliver supply. I think actually this will be a better year than last year for all parts of real estate... We didn't launch a new project last year. A lot of developers didn't. I think you'll see a little bit more product this year, namely because a lot of the investors are back and buyers now are coming into showrooms.

Sherry Cooper: Just looking at this from an economic perspective, the Canadian economy is running at about two per cent growth... which isn't fantastic. The unemployment rate has edged off a bit, but the Canadian dollar's down. And so I think that where the activity will be increasing is, again, more foreign purchasers. There's still the safe haven factor; there's still this tremendous need and desire globally to diversify portfolios. Canadian real estate has been extremely attractive and will continue to be, and now it's 10 per cent cheaper.

Interest rates, they are for sure very low. I don't suggest they're going to rise rapidly, but they're certainly not going to fall any time... People make a big deal of household debt in Canada, but it's just not an issue. The debt-to-income ratios of households have risen because interest rates have plummeted over the last 25 years or 35 years. So without a rapid increase in interest rates, I think 2014 will continue to be a good year.

Mathew Rosenblatt: I think new condominiums are going to be pretty flat and older stock will be flatter, trending down — significantly older stock, not in the core. I think the downtown housing market is going to be strong. There's limited inventory and always a growing population, so I think that'll trend up.

And I'm personally still even nervous about small interest rate increases because interest rates are so low that even small interest rate adjustments as a proportion of what people are already paying is significant. So I don't know what a big one would be, but I think even half a point is really significant.

Mike Eppel: It would be significant from a psychological basis because it's been so low for so long that it would be a shock to the system.

Sherry Cooper: I think the first significant rise, people will jump in because they want to lock in the loans.

Brad Lamb: We saw half a point to three-quarters of a point last year. It didn't affect the market terribly.

Sherry Cooper: Well, one thing's for sure, this Central Bank governor is much more predisposed to keep rates lower for longer than Carnie was. That's not good for the Canadian dollar, but that is good for the mortgage market and the housing market.

POST: Elise, what do you think?

Elise Kalles: Last year I was asked, "In our price range, do we ever get bidding wars?" And I said no. [But] 26 Chestnut Park came



SHERRY COOPER, Former Chief Economist BMO Financial Group



MATHEW ROSENBLATT, Developer Distillery District



HARRY STINSON, Condo developer, President Stinson Properties



ELISE KALLES, Top carriage trade Broker Harvey Kalles Real Estate Ltd.



BRAD LAMB, Broker-President Brad J. Lamb Realty Inc.



PAUL MIKLAS, President Valleymede Homes



MIKE EPPEL, Sr. Business Editor 680News



EVE LEWIS, Founder Urbanation Canada



BARRY COHEN, #2 RE/MAX agent in Canada, Broker Realtron Realty Inc.

out yesterday at \$4,195,000. It's out today at \$4,745,000.

Sherry Cooper: What?

Elise Kalles: Six hundred thousand dollars more. I was on a bidding war on Roxborough, 92 last week, eight offers. It went way over asking. Another one came out yesterday, \$1,800,000 and sold for \$1,985,000, in that price range.

But I think what we're seeing is the confidence again. In the last 18 months, six homes sold over 10 million in the whole GTA and four were foreign buyers. Now in December, I sold the biggest house in my career and another one over 10 to Canadian buyers.

Brad Lamb: Well there's definitely a problem with your market. Because no one's building primordial houses in the city, right?

Paul Miklas: I'm building ... on the Bridle Path.

Brad Lamb: I'm not talking there. I'm talking in the city. I'm talking downtown, like Forest Hill, Rosedale, or any neighbourhood that's a reasonable distance to a big job downtown or even up here [North York]. No one's building houses. Who's building houses? I'm not talking three, by the way. I'm not talking three; I'm talking a significant amount.

Elise Kalles: Because there's no land.

Brad Lamb: No, I'm agreeing with you. I'm saying that's exactly the problem. So your market is going to be very good.

Elise Kalles: That's right. And in Rosedale, you can't tear it down. Half the area has historic merit. Most of the area. But in Forest Hill, any in-filled house sells. A 50-foot lot by 168 sold for six million dollars.

Paul Miklas: Was that to a Canadian as well?

Elise Kalles: Yes.

Paul Miklas: What I like about this is this is unusual because really up until this year the premise has been the international buyer coming through. I know they're always shopping our product. The three homes I've got under construction right now are all foreign investors in Toronto. And I have two more in the sidelines, which, as Elise said earlier, I can't get lots for.

Brad Lamb: Where are those houses being built?

Paul Miklas: It's on the Bridal Path.

Brad Lamb: Where do you find lots in the Bridal Path?

Paul Miklas: Well that's the hard part: you can't. We've actually gone through what I'd call the A-list lots as of two years ago, and now we're working on let's say the A minus ones.

Brad Lamb: You're buying houses and knocking them down?

Paul Miklas: Yeah, it's 100 per cent. You're just going for land value. And the land value in the Bridal Path will range anywhere from as low as six up to seven and a half or eight million for two acres. They've got one site right now that I was trying to capture for a client of mine and it was three and a half acres. The homeowner wants 13 million just for the land.

POST: All right, in the condo market, it seems like one of the big areas to come up soon is Yonge and Eglinton. How big can this area get and what, if any, are the impediments to it? Is every site becoming a fight?

Brad Lamb: There's only so many development sites available and Peter Freed's getting huge NIMBY aggression. Virtually every site that Peter's doing is ending up in the OMB, right? You're not getting the agreement from residents. That's a big problem in that neighbourhood. People don't want high-rise buildings.

Eve Lewis: It is a hub, and there is going to be development there.

CONTINUED ON NEXT PAGE

NOTABLE DEALS

THE PAST YEAR'S MOST SIGNIFICANT LOCAL REAL ESTATE TRANSACTIONS

1. 191 STRATHGOWAN AVE. was listed at \$5,995,000. Sold after 14 days.
2. 29 RIVERVIEW DR., which boasts beautiful vistas, was listed at \$5,300,000. Sold in 27 days.
3. 172 SHERWOOD AVE. was listed at \$5,000,000. Sold in 18 days.
4. 39 SOUTH DR. was listed at \$4,350,000 and sold after two days.
5. 170 ALEXANDRA DR. was listed at \$4,395,000 and sold in 17 days.
6. 92 GLENGOWAN RD. is a classic beauty that was listed at \$4,350,000 and sold in 19 days.
7. 24 ELM AVE., a Rosedale beauty, was listed at \$4,199,000. Sold in seven days.
8. 26 CHESTNUT PARK RD. was originally listed at \$4,195,000 and sold in only one day.
9. 1 DALE AVE., in Rosedale, was listed at an asking price of \$4,195,000 and only took two days.
10. 72 ST. LEONARD CRES., a sophisticated beauty that was listed for \$4,099,000 and sold in six days.



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ROUNDTABLE 2014



L-R: Sherry Cooper, Eve Lewis and Mathew Rosenblatt

Mathew Rosenblatt: It's a high-density neighborhood, and it's a low-density neighbourhood.

Brad Lamb: Yeah, no, listen, it's going to get development. There's already a ton of buildings over there. There's huge community unrest about it. People don't want high-rises, and if you don't get the councillor and you don't work with zoning, you're going to go to the OMB. Then you're going to have more expenses.

Eve Lewis: And you'll be scaled down.

Brad Lamb: The problem is development land is impossible to buy in Toronto. It's harder than buying an \$800,000 house. Nobody wants to sell it to you. They're always completely out to lunch about the value, and they're always trying to sell to you based on the pie-in-the-sky zoning that somebody whispered to them that they could get.... So you're overpaying for sites. I'm overpaying for sites. Everybody is. You actually buy it with the idea that you're going to get a 45-storey tower, and you hope you can. And you get scaled down to 35 or 30, and you have to live with it.

Eve Lewis: And your numbers are off.

Brad Lamb: And your numbers are off, yeah. That's the reality of the problem.

Mathew Rosenblatt: But I think there's a lot of demand on that market for different reasons. You know, young purchasers or people moving out of their houses wanting to stay in that neighbourhood.

Brad Lamb: At Yonge and Eg? Yeah, it's a great market for selling.

Matt Rosenblatt: But as everywhere, there's no inventory. So if it gets a lot of density, hopefully, you'll be able to sell it.

Brad Lamb: Now you have to buy 10-storey buildings to develop a 30- or 40-storey building. And you can't buy a 10-storey building at any kind of price that it makes sense to redevelop it, so our market is grinding to a halt. We can't find sites. Everyone who is in the development business is looking for sites, and no one can find them.

Paul Miklas: Or afford them.

Brad Lamb: Or afford them.

Mathew Rosenblatt: Ten years ago, you could buy something for 10 million dollars. The same place, it's a hundred million dollars.

Paul Miklas: It was gravy.

Harry Stinson: I don't think it has changed. The numbers are larger, but I recall hearing the same concerns that the numbers are too high.

Brad Lamb: No, no, Harry. Before there were parking lots you could buy and there was actually interest within the city. There were no development levies.

Elise Kalles: It's significantly different than 10 years ago.

Brad Lamb: No co-operation whatsoever with the city. They're not going to agree to any of it. Anything you propose, a planned apartment, is an absolute



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ROUNDTABLE 2014



L-R: Harry Stinson and Mike Eppel; high-end market heavyweights Elise Kalles and Barry Cohen

no. You might as well not even talk about it. It's just not going to happen. The environment for developing in Toronto is probably the worst it's been in the history of Toronto right now.

Paul Miklas: It's definitely going in the worst direction.

Brad Lamb: It's because we've been so spoiled for so long that everyone now is like, "Oh, another condo. Who wants another condo?" There are cities in Canada that they will give you money to build condos in their cities. Good cities, big cities... We're so lucky to be in this city. The amount of money that the condominium market has dropped into this economy is unbelievable. It's a huge success story that any city in the world would love to have. We don't love it here. We hate the condominium market.

Mathew Rosenblatt: Someone must love it.

Brad Lamb: Nobody loves it. Nobody loves it.

Mathew Rosenblatt: I love it.

Brad Lamb: Well, developers. [Laughter] If you ask consumers, people on the street, they're very concerned about it. Councillors aren't in love with it. Even councillors that allow it aren't in love with it. They do it mostly because they feel they have to.

Barry Cohen: The public's in love with it because they buy all the units.

Brad Lamb: The public is absolutely not in love with it. Investors are buying the units.

Barry Cohen: A condo is still a home.

Brad Lamb: Let me tell you, if you think this has happened because of homeowners, you're mistaken. And Eve can tell you that, too. It's investors. What's built this city is investors, not homeowners. People don't love condominiums.

POST: There was recently a bidding war. An average semi sold for \$210,000 over its asking price of \$639,000. Is the under-one-million-dollar price tag driving the market gains, or is the luxury market keeping pace?

Paul Miklas: I don't know, anything under a million is just going like firecrackers now.

Sherry Cooper: Is there anything under a million?

Paul Miklas: To rephrase, anything under a million-two.

Brad Lamb: OK. You can buy in the east and some parts of

the west... There's still some stuff under a million. It's not going to be great. But you're right, it's not going to be long.

Paul Miklas: But the general question, it's moving rapidly. The luxury stuff is, I would say, steady and stable and just moving along nicely. It's not staying with the lower projects. But it seems, when you get over a million and eight and upwards, it takes time.

Mathew Rosenblatt: So where are these guys going that are selling their semis?

Elise Kalles: And the purchasers are getting disillusioned. They're outbidding two or three times, and they think maybe we should just rent and wait, but that's not the answer either.

Paul Miklas: No. And to answer your question, what they're doing is selling their homes at the \$800,000 to a million dollar mark, and they're looking for a condo of around \$200,000 to \$250,000 or \$300,000, and they're putting anywhere from \$600,000 to \$700,000 in their pocket as sort of their retirement fund. They're downsizing. Typically speaking, the older people are selling their homes right now, because they're getting such great value for what they originally paid for it, and they're downsizing.

Harry Stinson: They're making lifestyle changes, exactly.

Mike Eppel: What would've been interesting from that story would be to find out exactly who were the bidders specifically and what their current situation was. Are they renters looking to get in, or are they trying to move up market somehow? Why were there so many bids on that property in that neighbourhood?

Brad Lamb: You know why there are so many bids? Because they underpriced it by probably about a hundred grand. So the people looked at the \$600,000 or whatever the price was, who actually believed they could buy it for \$620,000, even though their agent is saying, "I'm not going to show it to you. It's going to sell for \$800,000. It's a waste of time." "Well no, I really want to see it. I want to bid." You can't stop someone from bidding. So there's probably ... how many bids were there? 50?

Paul Miklas: Thirty, he said.

Brad Lamb: Whatever. Probably 23 were people that could never afford it, and those 23 are used to drive some poor loser into the \$810,000.

Barry Cohen: Yeah, I think, as a practice, buyers have to be cautious in any multiple-offer bid. But I would think, if you're going to get into something above four or five offers, be extremely cautious and be willing to walk away even before you get started.

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“I think if you need a house, you want a house and you can afford a house, you should buy a house.”



L-R: Paul Miklas and Brad Lamb; the panel in heated debate mode

Harry Stinson: I think it will keep happening with mid-sized houses in Toronto.

Barry Cohen: That's the tale of two cities, right? The 411? I think 850 is the starting point. That's why people do go to condominiums, or they go to the 905 exchange for affordability.

POST: So if one is looking to get into a single-family home in Toronto north of Bloor, are there neighbourhoods that still offer kind of a decent value?

Elise Kalles: I think Hillcrest Village, St. Clair and Christie has gotten very, very hot. Yeah, that whole area, young couples, children. It's amazing. It's varied. Under a million, it starts, if it's renovated. But it's a very in-demand area, and I see what's opening there, the boutiques, the bakeries, the restaurants.

Barry Cohen: So you know, you've seen a lot.... I mean York Mills was that way. The central core Avenue Road has become that way and downtown Toronto housing. I'm seeing Sheppard and Bathurst transforming, Don Mills.... It's really a matter of looking for those areas of larger lots or homes that are undersized for the lots.

POST: So the classic question we ask each year is would you help your kids buy a home in the spring market given the factors we've talked about?

Harry Stinson: I don't think the spring/fall/summer issue is relevant any more. The markets seem to be unpredictable now. But I would say yes, and I would agree with Elise. You can get in and keep trading in that market. You don't sort of try to go in and out like a day trader and treat real estate as a commodity. It's a place to live. You be patient. You buy carefully. I would say yes.

Mike Eppel: I'd be the same. I'm looking at it from where my families want to be 10 years from now, kids going to university or college or what have you, depending on where they end up going. But if I had a crystal ball and said they'd be going to Toronto, U of T or Ryerson or what have you? Absolutely, I'd be looking at buying a condo and renting it for the time being and maintaining it just as an investment for where they could live in the future and have some of it paid off.

Paul Miklas: I would definitely encourage my kids to invest in Toronto. The real estate is solid. The city's only going to expand. Property values are only going to continue to grow. They'll see a two to three per cent growth in the time each year that I feel they'll own the property. They're not going to make the windfalls that some purchasers would've made back 10 years ago, but one thing is for sure, it will be a constant, and they're supporting a great city in the future. The only thing I'd really encourage is to try to stay as close to the city core as possible and make sure there's nice amenities around them to support their lifestyle.

Brad Lamb: I think timing in the real estate market's pretty impossible. I think if you need a house, you want a house and you can afford a house, you should buy a house.

Sherry Cooper: I agree. I've never considered my primary residence as an investment decision. You can invest in real estate. That's something else. But for a primary residence, it's a lifestyle decision and an affordability decision. I'm in that situation right now. My son and daughter-in-law have a one-and-a-half-year-old, and for sure when they have the next baby, they're going to want to move into a house. Now they're in New York City, and interestingly, you can no longer ... parents can no longer cosign for a loan. That doesn't work because of the crisis in the U.S. They've changed the rules so that it's only occupiers that will count in a mortgage situation. So the only way parents can help their kids is to help them with a down payment.

Eve Lewis: Cash?

Sherry Cooper: Cash, exactly. It's even more strict. But you know, given that if they want to live in a home and they have two great jobs and they can afford it, we would certainly encourage it.

Eve Lewis: My answer to it would be yes. That's how I put all my kids through university was investing in condos, and I did it at an age where when you bought a presale, and by the time they closed, they could be 18 years old. So I think maybe you're looking at ... it's true. It's a really, really good way of helping to finance putting your kids through university, and I actually did cosign because four of the six of them have bought condos in the last year.

Harry Stinson: Six kids? Wow.

Eve Lewis: Yeah, between my husband and me.

Mathew Rosenblatt: My kids are very young right now, but I would help them when they're making stable lifestyle decisions. For me, university wouldn't be the time I'd be investing in real estate for my kids or with my kids. It'd be closer to when they got married and are having kids, again for long-term lifestyle stable decisions. Not taking them in and out of the real estate investment market.

Harry Stinson: I'm actually intrigued how many times people say "I'm going to buy a property for my kids now. They're very, very young. I'm not looking to make a huge return, but over the next 15 to 20 years, it will pay itself down, and then we have some money." So they're looking at that extended period of time as just a passive investment. They're looking to, say, get a six and a half per cent return. They just figure it carries itself in their name and it's a good investment.

Elise Kalles: I believe, definitely, when they go away to university. And I think it makes them responsible to own something. You don't give it to them; you help them. I think it's a good start.

Barry Cohen: I think the panel's unanimous on buying, so all I really need is your kids' cellphone numbers [laughter].



THESE TORONTO 'HOODS ARE QUICKLY APPROACHING THE MILLION-DOLLAR MARK

- 1. PALMERSTON-LITTLE ITALY** – Mamma mia! Last quarter the average home sale in this 'hood was \$994,859.
- 2. YONGE AND EGLINTON** – Young and eligible is right. The heart of midtown saw an average of \$941,043.
- 3. THE BEACH(ES)** – Time for a trip to the beach. Last quarter homes were an average of \$912,084.
- 4. WYCHWOOD** – At an average of \$890,856, this artsy area could be one to watch.
- 5. NORTH RIVERDALE** – \$868,705 was the most recent average for this little pocket of the east end.

THE NEW DISCIPLES OF DOOM TWO NOTED BEARS WEIGH IN ON THE HOUSING MARKET

- "It's illogical to think that a 10 per cent year-over-year gain will last forever. The boom has made people feel wealthier because their house values are going up ... They're ... getting home-equity lines of credit, or rolling more debt into their mortgage when they refinance ... If prices stagnate or fall, people could end up with negative equity, where the house is worth less than the loan they're carrying." – BEN RABIDOUX, *Analyst & Strategist, M Hanson Advisors, The Grid, June 22, 2012*
- "...since house prices typically follow sales with long lags, home values are likely to remain at lofty levels relative to household incomes for most of 2014. Over the longer-term, we still expect a major house price correction because signs point to oversupply and tighter credit conditions in the not-so-distant future." – DAVID MADANI, *Analyst, Capital Economics*