

SPECIAL FEATURE

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Goodbye white picket fence

GTA's success puts the squeeze on home buyers

New BILD president says land scarce, development charges high

The Building Industry and Land Development Association (BILD) describes itself as "the voice of the land development, home building and professional renovation industry in the Greater GTA."

One of BILD's most important functions is government advocacy. Builders in the GTA are enjoying great success at the moment, but they also face a number of interesting challenges.

BILD appointed veteran civil servant Bryan Tuckey president and CEO in

The change in low to high-rise development in the 905 is the direct result of provincial policy and municipalities investing in transit.

BRYAN TUCKEY

May of this year. Tuckey spent 11 years as the commissioner of planning and development services for York Region. During that time he developed York Region's new official plan and conservation and management policies for the Oak Ridges Moraine.

He also served the province of Ontario as the director of provincial planning. He was later promoted to the position of acting assistant deputy minister of provincial municipal relations.

"I have a pretty good handle on the industry and the people in it from the building side," he says. He's now getting ready to build relationships with builders, partners, and the media.

"We've seen record-breaking activity in the high-rise sales," Tuckey says. According to RealNet, 46 percent of Q1 GTA high-rise sales were in the 905.

"The change in low to high-rise development in the 905 is the direct result of provincial policy and municipalities investing in transit," Tuckey says, attributing growth to the provincial government's 2005 Places to Grow Act. The act mandates increased density around planned transportation corridors and strict limits on urban sprawl.

It is common knowledge that the



BILD President Bryan Tuckey

Toronto market is very attractive to investors, including foreign investors.

According to Tuckey there is "virtually no rental housing being built in the GTA."

It seems we need investment in order to provide Torontonians with housing. "The condos fill that demand for young people and new immigrants. It gives renters a choice."

Tuckey foresees two major challenges in the coming decade for the building industry: land availability and government costs, from taxes to parkland requirements.

York Region, for example, is 69 percent protected green space. Where can expansion happen?

Any expansion has to be approved by the region and the local municipality. Development involves a complicated planning process. Land supply is very limited, driving prices up.

Tuckey also singles out the rising government-related costs. "Development charges, HST, Land Transfer Tax, parkland requirements do very much add to the cost of housing in real terms."

You may not immediately sympathize, but consider the City of Vaughan. As of January 2012, the development charges per single or semi-detached home were \$54,931 per unit, with \$12,490 going to Vaughan, \$40,421 going to York Region and \$2,020 going to the York Regional School Board.

Though the funds are clearly allocated to infrastructure, including water, sewage, and transit, it's still no small sum, and you'd better believe it all gets passed on to consumers.

How can we get a break? "I think we need to tell the story," says Tuckey.

So here it is—the story. With BILD's appointment of Tuckey, we can expect to hear more of it.



Eve Lewis, founder of Urbanation and Marketvision

Builders in competitive market need a clear end-user in mind

"He who fails to plan, plans to fail." Winston Churchill, or whichever ancient sage originally uttered this aphorism, may need to be reminded by Robert Burns that "the best laid plans of mice and men often go awry" without understanding the market data.

According to Eve Lewis, even in today's active housing market, developers can make huge mistakes and lose millions if they don't interpret market research accurately.

Lewis is the founder of Urbanation, a research company that has been tracking GTA new and resale condo sales, future condo product launches, and condo rental pricing since 1981.

Recognizing that the information she was collecting at Urbanation was only as good as the readers' ability to interpret it, Lewis later founded Marketvision, a company that helps builders correctly use data to make sound decisions throughout the entire birthing process of a project.

In the first phase of a project's gestation, Marketvision handles land sales. You would think that any place downtown is a great place to build a condo, but for a developer, determining the actual value of a piece of property depends on accurately determining what you can actually build there.

This goes beyond knowing what the city will allow you to build. By the time the project is complete, what type of unit will be in demand in a particular neighborhood, and how much will they actually sell for?

"We do very, very detailed analysis of what's in the surrounding neighbourhood, both the resale and new

sale projects," Lewis explains. "We also look at demographics, where there's movement, and also where businesses are moving."

Without understanding how current data indicates market trends, developers might overpay for a location, or miss out on a great bargain.

Their risk is huge.

When developers buy property, they need to be clear about what will be built there—clear enough to be able to sell it to buyers with nothing more than hoarding, some renderings, and a sales centre.

The reason for this precarious practice? Banks will not approve financing until the project is 70 percent sold. This means that without effective marketing and a desirable product a building can simply not happen.

"Their risk is huge," says Lewis. "They have to put up all their personal capital until the project goes under construction. If they don't do their research and they don't get the right product and they don't design the right building, that's a huge amount of [lost] money."

According to Lewis, what we see decorating the horizon are the success stories. Failure can happen even at the height of the market.

"You have to do your research, you have to know your market. You have to have a great team that's going to get you to the finish line."

GTA housing Bubble fuelled by investor speculation? We think not.

Last year the GTA condo market was record-breaking. With unrest in the west and a steady stream of media doom and gloom, we caught up with Ben Myers, executive vice president of Urbanation, to find out what the 2012 Q1 numbers are telling us.

"The first quarter was the highest first quarter on record for the new condominium market," Myers says.

"Our forecast was for 20,000 condo sales [this year]. With 6,000 in the first quarter we're certainly on pace for that."

Myers numbers indicate that another 30,000-35,000 units may potentially come on the market in 2012.

"If we do have that level of new unit launched into the market we'll probably challenge that 28,000 sales we had from last year."

According to Myers, there may be some slowing in the ever-increasing price per square foot. He sees some signs already.

"It's a little bit disguised by the fact that a lot of the projects that have come on in the second part of last year and the early part of this year were prime downtown projects with a lot of units. That kind of pulls the average [price per unit] up."

A large number of condo sales in



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URBANATION'S BEN MYERS

the Peel region also contributed to the market's strong showing.

Population in the 905 areas is growing rapidly, but Myers thinks condo sales in the suburbs are in part fuelled by baby boomers downsizing their homes.

With the rental vacancy rate hovering around 1 percent, finding a tenant for your condo property is not exceptionally difficult. But because rental prices are increasing at around 6 percent per annum while condo prices are rising at 8 percent, investors in the GTA appear to be prepared to put enough down to remain cash flow positive.

If investors were having trouble hold-

ing on, we'd know quickly. "You'd see a flood of units in the resale market," Myers explains.

The trend Myers sees is the exact opposite.

"We're actually seeing less units being listed in the resale market in newly registered projects than in previous years—which is totally opposite to what you'd think because the level of investor activity has increased pretty significantly. They're holding on to them and they're renting them out."

The rise in investor-landlords has created a need for accurate data. Planning for the long term not only involves knowing a condo's re-sale value; invest-

mentors need to have accurate information about what it can realistically rent for.

Last year, Urbanation launched UrbanRental. "We basically take the Toronto Real Estate Board information and we kind of upsize it," says Myers.

Using Urbanation's resale and new condo database, they analyze buildings individually, in sub-markets, grouped by sub-market, as well as rental performance in the GTA overall.

It appears that the condo market is currently investor-driven. Builders are building what investors want to buy, but is that what renters want to rent?

"We're probably creating too many small suites," Myers posits. "Investors now are driving the sizes that are being created in the market."

Myers feels buyers will either leave the city for more space or stick to the downtown core, living in smaller spaces where "the area is the amenity."

This metropolitan-style living is old news to Tokyo or Manhattan residents.

Regardless of the location in the GTA you are looking to buy, it seems unrealistic for condo buyers to hope for anything more than a slight slow-down.

"If you're waiting on pricing to go down in this market, I think you'll be waiting a long time," Myers says.



Andrew Kowalsky

Condo sales may slow, but pricing will remain steady

"It's finished, which is good. Selling 80 percent [of a project's units] in two weeks ... was nice while it lasted, but that's where all this panic, this bubble talk, comes from."

Andrew Kowalsky, vice-president of sales and marketing at International Home Marketing, is sure 2012 is not 2011.

Prices will level out—but prices can't go down.

"It's a slower market. It's not doom and gloom, but there's definitely a pull back."

Currently handling sales for 20 high and low-rise projects in and around the GTA, International Home has seen a 20 percent decline in sales since the beginning of the year in Kowalsky's estimation.

After over 20 years in the real estate business, Kowalsky is not worried.

"Last year you opened your door and things sold. This year it's a regular

market. It's steady." He predicts steady sales and a slower climb in price per square foot.

"Prices will level out—but prices can't go down."

Investors are just a little more cautious this year. "Investors are sitting back a little bit," Kowalsky says.

This hesitance comes from concerns about the global economy. Projects that are not sure to be profitable will be put on hold.

Rather than building cheaper units in a less desirable location like Scarborough, builders are waiting for land to become scarce enough to make building anywhere in the GTA profitable.

"Scarborough sites are ready, but the price per square they can sell it for is less than the cost to build it," Kowalsky notes.

If a project can only sell for \$400 per square foot, the developer can't build it and make a sufficient profit, so they hold on to land until the time is right.

With a scarcity of land, rental units, a steady influx of immigrants, and a stable economy that attracts investors, they may not need to wait all that long.

No price break for buyers even in a cooling market

Debbie Cosic is co-founder of In2ition, a real estate brokerage currently handling 23 projects in the GTA.

Cosic has been in the business for 25 years. Like all our interviewees this week, she is quite sure prices will not go down. Sorry.

"The market took a short, moderate dip in 2008, but has marched steadily northward since then," Cosic explains by email.

"There is a lack of product in the resale world. This is simply pushing prices upwards. The high costs are driven by a perfect mix of record-low interest rates, lack of inventory, and a stable economy."

There is a lack of product in the resale world. This is simply pushing prices upwards.

If there were a drop in condo sales, which there hasn't been—Q1 2012 saw the highest number of condo sales on record—Cosic feels it is nothing to fear.

"Canada is not in a bubble; I think this market is experiencing a small levelling off, simply a return to normality."

Her future predictions will be of little comfort to first-time homebuyers, though investors will be pleased.



Debbie Cosic

"Long-term I see a strong market place," she says.

"Toronto welcomes 43 percent of the 250,000 new immigrants that Canada accepts each year, driving constant demand for new rental properties. Canada's unemployment rate is one of the lowest in the G8 countries. The World Economic Forum ranks Canada's banks as the world's soundest in 2011 for the third consecutive year."

These are all things that we should be happy about. The high cost of housing may be the price we pay for success.

The concern around Canadian household debt and a potential rise in interest rates may slow the market only a little, says Cosic.

"It will be like the late '80s when people's expectations changed, and they were forced to buy the house they could afford, not the house they desired."

Condos the new reality provided units get bigger

Mark Cohen, founding partner of The Condo Store, has 30 years experience marketing condos in the GTA. With 12 to 15 projects on the go at any given time, he admits the last two years have been incredible for high-rise developers.

"I think we're naturally nervous. ... I don't see a bubble, but I think we will correct ourselves." He is referring to a slowdown in the increase of pricing, not a reduction.

Waiting for the price to go down, however, may not be the best idea. "I don't think the prices can go down."

Cohen points to the ever-increasing cost of land, construction, taxes, and municipal fees. But it still appears to be a seller's market.

"Supply is lacking. There is probably less than six months of inventory."

There aren't enough houses. There will never be enough houses.

Cohen feels confident the large number of projects planned for release in 2012 is not a glut, but simply a large supply for a large demand. The increase in options will only benefit consumers.

"There are close to 700 projects on the market. There's lots of competition and choices. That will ensure that prices aren't too crazy," he says.

With the lack of new and resale low-rise inventory, Cohen thinks people will turn to condominiums.

Torontonians are characteristically buyers, he says, in part because rents are high and vacancy rates are low. "It's cheaper to carry a 4 percent mortgage than to pay rent." With land prices at a premium, and



Mark Cohen

limits to urban expansion, what options are families with modest income left with?

"There aren't enough houses. There will never be enough houses," says Cohen.

"I think you're going to see more bigger condominiums—more and more people realize that this is what they can afford."

Currently there are very few three-bedroom units available on the market. Cohen predicts that builders will need to consider buyers who now find single-family homes out of range, but need additional space.

"The sizing is going to get bigger again because the price is still less expensive than buying a big single family home."

"I think you're going to see three-bedroom suites, two storey suites, live-work suites. They may not sell as quickly but they will become the way people live their lives."

What in Cohen's view is the trend for Toronto? "Living in a smaller space, with public transit."