

The sky isn't falling

But experts say Toronto's real-estate market has finally cooled. Is the era of bidding wars and no-strings offers over?

DEIRDRE KELLY

Globe and Mail, September 4 2006

For those of you who have just sunk all your savings into a new house in Toronto, there is good news and there is, well, a little bad.

Good news first: Despite the nosedive that the real-estate market is taking south of the border, you haven't lost your shirt. Not yet.

But you may have just bought at what some experts are calling the tail end of a long seller's market.

After years of astonishing growth that has seen the average price of a home in the city top \$365,000, the red hot Toronto market has finally cooled, according to Craig Alexander, a Toronto-Dominion Bank economist.

"While the Toronto market is strong, it is considerably less heated than we have seen over the last couple of years," says Mr. Alexander, who has been tracking the market this past year in a series of reports called Housing Bubble Watch.

"A year ago prices were rising at a single-digit rate, in the 7 to 8 per cent range," Mr. Alexander says. "Currently prices have moderated to 4 to 5 per cent."

And the rate of growth will continue to fall, Scotiabank economist Adrienne Warren predicts, "to about 3 or 4 per cent through next year." The reason for the cooling, Ms. Warren says, is twofold. Demand is slowing because of reduced affordability; and at the same time there's been an increase in the supply of homes available. The result is a more balanced market.

Out in the field, people for whom real estate is business are already noticing the pendulum swing.

"Prices seem to have softened somewhat, that's for sure," observes broker Niels Christensen. "There are more houses selling for under asking price now than there were for the same period a year ago."

Furious bidding wars, those sweat-inducing scrums in which a house's value soars to the stratosphere, are in his opinion about to become history.

"In the last year, the expectation on the part of sellers has been to have their asking price met or exceeded in a short period of time. But now we're going back to a more traditional approach, meaning not every house will sell in the first week it's on the market."

He foresees sellers dealing with buyers on a one-to-one basis again, "instead of 10 at a time."

"Properties are now taking longer to sell than they did a year ago, even if you compare the spring of this year when sales were still strong," continues Mr. Christensen, a 19-year real-estate veteran who specializes in high-end properties in Etobicoke. "Buyers can now buy a home in an environment that's less frenzied than over the last two years, and they can afford to do their research and even make an offer conditional on a home inspection, which is more traditional."

So which neighbourhoods will weather a market cooling and which ones are vulnerable?

Not surprisingly, agents cite blue-chip neighbourhoods such as Rosedale and Moore Park as near bulletproof. Deborah Lee, an agent with Re/Max Ultimate also points to neighbourhoods close to the Yonge corridor, such as Summerhill, and the relatively affordable homes in East York as being well positioned. Her rule of thumb: Anything close to good transit, good schools and good shopping always sees a healthy return.

Royal LePage's James Warren says that location, location, location is no longer enough. "It is now location, renovation and initial price point," he says. "If you have all three, particularly renovation, then the market will pay you handsomely, and the market will take back from you if you're not renovated."

He cites a home he listed in Regal Heights, a solid neighbourhood with large houses that purchasers are now renovating to sell at a tidy profit. "We priced the house at \$859,000 with restricted offers in April and May. We had eight or nine offers, and it sold for over a million."

Meanwhile, if the market continues to cool, neighbourhoods known more for trendiness than their proximity to good schools -- Parkdale and Leslieville are two districts a number of agents cite -- are more likely to shrink than surge if buyers start thinking about long-term goals rather than quick return on their investment.

And condos? Their continued affordability has, according to Ms. Warren, meant that they've survived so far: "Right now, generally, single detached homes are moving more slowly than condos."

But don't panic yet. In Mr. Alexander's opinion, GTA home prices will still average roughly a 5 per cent annual gain over the next five years.

"The market has moved into balanced growth," the economist says. "It has slowed, but it hasn't declined. We haven't seen prices contract. There isn't a bubble and there is no reason for it to burst."

And agents are saying that the market shows no signs of deteriorating. For her part, Ms. Lee says business is "booming."

James Warren agrees. "If you look at the MLS [Multiple Listing Service] for C9, where I work, the total number of sales for detached homes over \$2-million was 37. Right now, in the year to date, there have been 25 sales in the same price range. I'd say, therefore, that the market is ahead of last year. In some instances, parts of Toronto have even done better."

But even he admits that, lately, he has had houses sell for below asking. "I think the property market is starting to stabilize. But that's purely seasonal. August is usually a pretty quiet month, and the other thing you have to remember is that 35 per cent of the business is done between September and December . . . The other 65 per cent is done from January until the end of June."

In other words, the future is still rosy -- if a little less so than before.

Observes Bosley real-estate agent Richard Silver, who works Cabbagetown, Riverdale and Rosedale, "There's a lot of press right now about the American market and how it's slumping, and people are assuming that we are in the same marketplace. But Toronto isn't the same. Our indicators are very good. We have good employment, lots of immigration, a lot of first-time buyers, and we're also not in a war that's putting us billions of dollars in debt daily."

Even the naysayers have to agree. "I'm very bullish about the Toronto market," says Niels Christensen.

"Even though it's cooling off."