The Empire Club Presents

PHIL SOPER
PRESIDENT & CEO, ROYAL LEPAGE & BROOKFIELD REAL ESTATE SERVICES INC:

THE CANADIAN AND GTA HOUSING MARKET: ROOM FOR OPTIMISIM, CAUSE FOR CONCERN

February 11, 2015

HEAD TABLE:
Distinguished Guest Speaker:
Mr. Phil Soper, President & CEO, Royal LePage & Brookfield Real Estate Services

Guests:
Ms. Sheila Botting, Partner & Canadian Real Estate Leader, Deloitte
Mr. Ciro DeCiantis, Partner & Toronto Real Estate Leader, Deloitte
Mr. Spencer Enright, President & CEO, Brookfield Real Estate Services Manager Limited
Ms. Maryjane Martin, President, Canadian Public Relations Society (Toronto)
Mr. Bruce McCuaig, President & CEO, Metrolinx; Director, Empire Club of Canada
Dr. Gordon McIvor, Executive Director, National Executive Forum on Public Property; Director, Empire Club of Canada
Ms. M. J. Perry, Vice President and Owner, Mr. Discount; Director, Empire Club of Canada

Welcome Address by Dr. Gordon McIvor, Executive Director, National Executive Forum on Public Property; Director, Empire Club of Canada

Our guest speaker today is extremely well-positioned to speak on the residential real estate market in Canada—where it has been, where it is today and where it is likely to go in the future. As the CEO of Brookfield Real Estate Services, comprising Royal LePage, Johnston & Daniel, Via Capitale and Prudential Canada, he has for the past 12 years led these companies through one of the most unprecedented growth periods the industry has ever seen but also guided them through extremely challenging times, such as the recession of 2008 and the setbacks that many markets faced during that period in the residential sector.

Prior to joining Brookfield Real Estate services, Phil was the Chairman of Prestige Resorts and Destinations and, before that, was the General Manager and Vice President of Brookfield Global Relocation Services. Earlier on in his illustrious career, he spent 17 years with IBM from 1984–2001 with four years during that period spent as the Chair of a web and strategy company offering web and other interactive media consulting services.

Now, his career has given him much more than a deep understanding of real estate markets. It has also honed his communication skills and made him realize the great power of being able to effectively reach various demographics.

This key talent was recognized two weeks ago when Phil was awarded the CEO of the Year award in Communications and Public Relations by the Canadian Public Relations Society. We are very pleased to have the President of the Toronto chapter with us here today.

In his acceptance speech, Phil spoke of the fundamental importance of communication in business today, particularly, in the CEO suite. He is also a firm believer in volunteerism and is a board member of the Royal Lepage Shelter Foundation and the Brookfield Real Estate Services Foundation, as well as an extremely active participant in the T3 Summit, an annual real estate CEO and thought leadership organization.

Real estate is a subject that touches most Canadians financially, socially, emotionally and many would even say, spiritually. It is a topic we have examined many times over the 12 decades of speeches at the Empire Club, and we are very fortunate to have one of the industry's top players to provide us with an update at a time in our history when Canadians have never been more interested in this topic than they are right now.

Ladies and gentlemen, please, join me in welcoming for the first time to the Empire Club of Canada Mr. Phil Soper.

Phil Soper

Thank you, Mr. Chairman. Thank you, my head table

guests. Thank you to Deloitte for sponsoring today's luncheon. Thank you to my colleagues from Brookfield. I have got the board, the head of our audit committee here listening very carefully, and, to my many colleagues from Royal LePage—I see a number of you here and various other aspects of business life—it is really a pleasure to be able to share a few thoughts about this industry that many of us hold near and dear.

Speaking at the Empire Club is a very special thing for me. When I was a kid, I was in a very bad rock 'n' roll band, and I dreamed about playing at Massey Hall—and I know that will never happen. It just will never happen; although, we had a real estate industry fundraiser, and I played on this very stage about a month ago. So there you go, to a much smaller crowd, and I always wanted to speak at the Empire Club, so when the Club reached out and offered the opportunity, I looked at it, and, hopefully, I can share a few insights into what my colleagues and I have learned through guiding Canada's largest real estate company and oldest real estate company through a very interesting decade and some incredible growth, some incredible challenges.

I was recently interviewed by a CBC reporter, and it was difficult to get into the piece because she kept interrupting the recording with exclamations like, "You're kidding me! Prices have to come down," or "How do you deal with these multiple offers?" And I know her producer wanted her to focus on macroeconomic factors. It was supposed to be

about oil price declines and the impact of the interest rate decline—a drop in the target rate by the Bank of Canada—but what in fact was going on was she was recently married and she was trying to buy a house in Toronto, and I see this again and again: The real estate is something of a passion for people, and, in Canada, approximately 70% of us own our homes, but our research—and I will touch on it a little later—shows that 85% of millennials, our first-time buyers of today, want to own their homes. So is this great news, or, with such large market share, if you will, are we at the top of the market and poised for darker days ahead? This really is what my talk is about today, Canada's real estate market, room for optimism, cause for concern.

I am going to begin by providing a snapshot of where we are today and where I believe we are going in the immediate future. Then I will touch on some of the truth behind real estate forecasting, and I see some famous Canadian economists in the audience, so I will avoid using a lot of numbers, so you cannot call me on them later.

I will explore both sides of the public policy argument behind supporting housing. We really supported housing as good for the public good for 75 years in this country now, and some would disagree with putting public resources behind it. I will provide some insight into what I believe we have in store in the market longer term, and I will finish with some insight into changes in the market, changes that are driven through immigration, through demographics and

even through social change—so changes in who is buying homes and how that will impact our industry. If you are going to buy a home in the short term in Canada, there is good news and bad news. So assume you are a homebuyer, and you live in Toronto. You have struggled with down payment requirements, always seeming to be one step ahead of your ability to catch up to them. For the dozens of properties you go to if you do put in an offer there are 14 others, and somebody always pays a ridiculous price for the home. So the bad news is that is not going away. Sorry if you are a buyer.

However, if you live in Montréal where we currently have an oversupply of properties that were built in the post-recession, mini-boom, and where the pressures on the market are much less, there will be some relief this year. And if you are a seller of real estate, you can flip that around, and I guess the message there is there is always a good side and a bad side in the transaction. Markets are either tight for sellers or tight for buyers, and real estate is a very local industry. The drivers of our market, affordability—and it is key to note that it is not the sticker price on a home; it is the carrying costs on a home that drives the behaviour in the marketplace. And the number one driver of carrying cost changes is, of course, interest rates. So there is probably no one change that we can see in the market that either slows or stimulates activity than a change in the cost of money. Confidence, in both employment and generally economic

health, obviously, is a factor in whether our markets expanding or not and then demand. Population growth and demographic mix. The age of our population and where they are in their life cycle. So all these things drive the real estate market.

I also thought it would be good at the outset here to differentiate between the commercial market and the residential real estate market. Our Royal LePage commercial business can thrive in times when the residential market is in a correction and vice versa. The real reason behind that is the value of commercial property is directly linked to the value of future rents whereas residential property is primarily consumption, and I think this is something that bears repetition. Someone who is in the market and looking for a new home will tell you that they are investing in real estate, and it is true that residential real estate over time in Canada has appreciated. It has been an appreciating asset, but shelter is a necessity. Food, clothing, and shelter are necessary to sustain life, and we should look at real estate, residential real estate, not predominately as an investment decision, but as a necessity that everybody has to deal with. And some people will tell you that granite counter tops are a necessity, too, and it is simply not worth going on without them, but this is not a staging discussion.

I said at the outset I would touch a little bit on forecasting. And a false notion. It is a false notion that real estate companies, large financial institutions, always predict

positively. I thought I would give you a little bit of a snapshot of what has happened over the last five years in terms of *our* calls on the market. So going back to 2010, I got headlines by declaring that Canadian homebuyers were irrationally exuberant and that they were paying too much for homes. That was in 2010. A lot of people, thereafter, predicted that the market was going to collapse, and I will get back to that in a second, and we came out at the end of 2012 and predicted that, no, contrary to talks of decline, the market was going to expand. By mid-2012, the headline on our release—big mid-year release—was "Canada's Housing Market at a Tipping Point." This is the middle of 2012. And at the beginning of 2013: "Brief, Mild Recession Forecast for Canada's Real Estate Market." Now, before those of you in the market are saying, "My goodness! You are bad forecasters," I will give you the mid-2003 headline: "Canada Emerges From Housing Correction." Nobody noticed. So our market does rise and fall. It is not always accompanied by significant changes in home prices, but the number of homes trading hands in our market rises and falls, and, certainly, if you were covering the auto industry, that would be the primary indication of the health of the market: How many cars are being sold, and the prices of the cars are secondary. So the markets do rise and fall, and we, as a real estate company—and financial institutions do try to get it right.

In 2014, at the beginning of the year, there were more calls

of dark days ahead, and I was quoted as saying, "There will be no hard landing. There will be no soft landing. There will be no landing at all. The market is set to expand again." And it did. In fact, our forecast for 2014 was very close to the decimal point on how home prices resulted last year. But I thought I would take a moment to talk about the negative side of forecasting and what I call "economic hyperbole." There is one particular firm in Canada that has been very bad at this. It is a British firm. They have been grasping at headlines for about five years now with the same end-of-the-world prediction that house prices were going to collapse by 25% this year, and if we go back to when they made that first prediction, and we looked at what has happened—it has actually between four and five years—home prices have appreciated by 20%. You add that 25% so, really, they have hefted a climb by 45% for them to be correct. If they are a hockey coach or a CEO with such a dismal record, they would have been fired ages ago. My point being, you actually can hurt people by producing forecasts that are designed to just gather headlines, and I think any responsible organization really does need to look out into the future and call what they do see, and we try to do that.

On a national level, though home prices do not decline very often. If you go back over the last 35 years, they declined four times on a national basis, and each one for a short time, typically, less than twelve months. And so a soft landing in

our industry is typically not a landing at all. It really means that price appreciation is less than the prevailing long-term rate, and we need that to happen because when home prices rise at a faster rate than underlying rise in wages and salaries, affordability gets strained. So we do have these cycles where home prices appreciate at less and more than the long-term average, and I will get to what that is and what we think is happening with that in the future in a second.

But there are problems, obviously, with home ownership in Canada. The most obvious one is leverage. High debt levels put people at risk when interest rates rise. Even if they can afford to carry the debt today if interest rates rise markedly, they put people at risk. People may have relied too heavily on the equity in their home for retirement which could decrease if house prices could decline. And of course, the same could be said of any investment, like stock prices, and what we do not want is our citizens servicing debt instead of saving for retirement.

There are other more subtle downsides to public policy that supports housing and those became abundantly clear during the American financial crisis. The most interesting one, as far as I was concerned, was the way homeownership interfered with labour portability. So in America during the six-year decline of their financial systems and their housing market, many people ended up with homes they could not sell. Yet they were anchored to those homes, and they were stuck in, say, Cleveland when there were jobs in Texas, and

there were those that examined this quite carefully. It is more pronounced in the United States because there are more major centres of employment than there are in Canada. But homeownership can be an anchor because homes are not by their nature liquid.

The other downsides of homeownership are the stuff for magazines: Stories of neighbourhoods in Phoenix and Las Vegas that were built, and people ended up under water, owing more than they owned on the homes, and they deserted house after house and left their swimming pools full serving as breeding grounds for mosquitoes and the proliferation of West Nile disease. How is that one for a weird little side line for the downside of housing?

But I think we have to remember when we talk about these sorts of things that there is a difference between good debt and bad debt, and if you believe in the underlying value of our housing stock, mortgage debt is good debt. It is debt that leads to support the acquisition of an appreciating asset which brings me to the differences between the United States and Canada—because they are significant.

As I said earlier, the downturn in the American housing industry really was a failure of their financial system of which housing is a victim. We have much more conservative lending practices than the Americans did and do, and structurally we are very different. The U.S. non-recourse against homeowner policy would allow people to walk away from a home if they owed more on the home than

the bank was owed, and you just cannot do that effectively in Canada. It has happened in Alberta in the past, but it is a very rare occurrence and, finally, the subprime market, which is really the market in which you lend to the less credit-worthy people. While it does exist in Canada—and we have seen some growth in it—it is a tiny little fraction of the overall housing market whereas it was a very significant part of how lending was done in America before the crash.

So let me turn to an immediate forecast, looking out to 2015. We had concluded in a 2014 forecast, before the oil price declined, that the market had peaked, and we were in for a period of slower home price appreciation. There were markets that were continuing to defy gravity. *Really,* it came down to three, Toronto, Calgary and Vancouver. Most of the country was moving forward at a much more moderate pace. We believe that independent of oil prices and interest rate changes that there is a broad moderating trend that is pushing housing into lower activity levels and lower house appreciation levels.

During the last quarter, the average price of a home in Canada, though, did increase markedly between 4.5% and 6.7% according to the Royal Le Page survey of Canadian home prices. To give you an idea of what homes are worth on a national basis: Bungalows are $406,000; a standard two-storey home, $445,000; and standard condominiums, $258,000. Of course, those in the room, most of you live in Toronto. Those would seem like bargains, would they not?

In fact, if you were in a Vancouver audience right now, you would think Toronto prices would seem like bargains. In Vancouver proper versus Toronto proper, home prices are about 50% higher in Vancouver, and, in fact, if you were to look at our latest results, you can buy about nine standard, two-storey homes in Moncton for one in Vancouver. So Canada is a market of local markets, and I guess what I would like you to take away in terms of pricing is there is very little evidence of strained affordability outside of Toronto and Vancouver cores, and, even in our suburban markets, we see relief in the Greater Vancouver Area of the Lower Mainland and when you move outside of Toronto.

The recent freefall in the value of oil has impacted our national housing market. With some, we saw it as a drag, and, with some, we actually saw it as a mild stimulus. Specifically, in the provinces of Alberta, Saskatchewan, and Newfoundland, we saw the drop in oil prices be a direct hit on consumer confidence, and we knew it would result in the removal of transactions from the housing market.

On the other hand, in central Canada, particularly, in Ontario, slightly less in Manitoba and Québec, we see lower oil prices as actually a mild stimulus for our economy, and, by extension, the housing market. As we look out to 2015, we forecast that home prices in Toronto will rise by 4.5% this year. That compares to the 7.5% we saw in 2014. We believe that the slow down would have been more dramatic if it had not been for the drop in the price of oil.

Our strength in export economy should benefit from America's strongest period of economic growth and labour force expansion in 15 years. Over three million people have joined the work force in the last 13 months alone. Further, a relatively weaker Canadian dollar makes our goods and services bargains south of the border, which increases company sales and bolsters consumer confidence here at home.

And, finally, a subtle point: We have unsatisfied consumer demand in Toronto. All of those multiple offers in which you have buyers that have been shut out again and again and again in these bidding wars, have not decided that they do not want a home. They just have not been successful in calling it an eBay–like bidding practice, and we feel when the market slows some of them will use that opportunity to come back into the market.

So let me talk about long-term expectations. Over recent decades, Canadian home prices have appreciated at about 5%. Today, with inflation so low and, therefore, modest increases in wages and salaries, we should be experiencing lower home price increases. Putting that away, if today's homeowners saw a 4% increase in the value of their homes, they would be just as well off as the homeowners of the past. As the North American economy continues on its long, slow but steady recovery, more people are working, and more people are earning more. Relative to the growth and wages and salaries, home prices have appreciated too

quickly in places like Toronto and Vancouver. Affordability has eroded, and we expect the pace of appreciation to slow. But will prices collapse as a few have prophesized? This seems highly unlikely in the future characterized by low—maybe not uber-low or historically low but low—interest rates and a healthy economy, which is what we seek.

Of course, the surprise cut to the central bank target rate will support housing in general and, in fact, even in the province of Alberta in the city of Calgary, we believe that the drop-in retail mortgage rates, which we will believe we will see this spring, will mitigate the impact of the blow to consumer confidence in our energy capital. The citizens of Calgary are a resilient lot. They are used to yo-yo changes in their market where prices rise and fall rapidly, and they are actually very quick to get back into the market if they feel their jobs are not at risk.

So let me talk just for a second about what this 4% number means, the long-term appreciation number. How can home prices appreciate for greater inflation over long-term? You would think that would not be possible, particularly, if you believe wages and salaries will attract inflation.

By its nature, real property is a scarce commodity. You can understand this best when you think about recreational property. A far and away waterfront is a most desired feature when buying a cottage, a cabin, a chalet across the country, but they are not making anymore of that. It is restricting. You think, well, we have endless lakes and water in Canada,

but the key is they have to be close to where people live to have any value. Before the 2008 recession, our research showed there were seven buyers for every two recreational properties for sale in Canada.

If we look at urban real estate, we can see the same sort of thing happen. As our commute times grow, as our cities become larger, people move. People will pay more to live closer to the centre of their urban environments, and, as such, we see a greater appreciation in the cores of our cities than the underlying rate of inflation. And cities expand. They push out. Now, sometimes, they are interfered with by geography, in the case of Vancouver, or by public policy, in the case of the Greenbelt in the GTA, and that artificially reduces supply and pumps up demand. And all of these things support greater than inflationary increases in real property over time.

It also results in a change to our housing mix. In 2013, a line was crossed in Canada, and we joined other advanced nations in becoming a “condo nation.” If you look ahead for the foreseeable future, the number of condominium units that are built compared to detached units will continue to grow, and, over time, our housing mix will move more and more to shared resource living. Of course, this is exactly the way most advanced economies live in their cities. Detached homes are a rarity in Europe, for example. But, with it, comes a lot of societal change. Alex and I were talking yesterday about micro-condos and the thousands of units

that are on the table in Vancouver and Toronto for as small as 250 square feet. This results in very different mixes of the kinds of people we see in the neighbourhoods we have. And, in general, if it is managed properly it should result in just much healthier, more vibrant urban core markets.

Over time, we have seen a number of these significant changes. Twenty-five years ago, 73% of the transactions that occurred were to married couples, and that is down to 65%. Women have grown by 50% in terms of their participation rate in buying homes independently. In fact, in our recent Female Buyers Report, we showed that young, female buyers were the fastest growing demographic of any buyer category in Canada. So, while they were out buying homes, guys still were buying cars and stereos. Some things never change.

Commute costs have become increasingly more important. Sixty-three percent of people worried about it 25 years ago; 70% worry today. And, for those who are in the industry—the real estate industry—82% of people 25 years ago used a licensed, insured agent. That number has climbed to 88% today.

First-time homebuyer motivation is also changing. It is interesting to note that they really are *the* key to a healthy market because they typically account for about 40% of the transactions that occur. In a recent study that we did of first-time homebuyers, 86% said that interest rates were the number one driver; 81%, home prices; 76%, job

security; and 64%, stable economy. Interest rates, price, job, economy.

In general, what this is driving is a change in the mix of who is owning our homes and buying our homes. In fact, the number of transactions that are coming out of the same size of population is growing. A recent British study showed that over the last two decades, the number of people per household has moved almost a full person down from about 2.2 down to 1.2 people per household. Unconventional partnerships, singles, friends—many different groups are buying homes. It is not just the marrieds that we talked about earlier.

And immigration is changing the way that homes are bought in our country. New Canadians are less likely, are slower to buy a home. It takes them longer after they are in the home buying age category, but, once they are into homes, they are twice as likely to be in homeownership and much more likely to buy a condominium—likely, because they came from countries where condominium living was the standard.

And even generational shifts are changing the mix of what we see in housing, and some of our predictions were simply wrong. Baby boomers, in a recent study we did on baby boomers versus millennial buyers, were expected to desert the suburbs in droves, and, in fact, this does not appear to be happening. Almost half, 45%, were looking for their next purchase to buy a home of the same size or larger, and when you peel back the cover on why they are doing that, it has to

do with really three things. One: Guys, and that trend that I talked about earlier where women are more sensible about getting into real estate earlier. Guys are even less sensible when they are older, and they want bigger homes when their kids have fled the nest. Why? Place for toys. They just do not have a place to put the motorcycles and the skidoos and the workbench they never use in their condo storage locker. And kids. Kids are boomeranging back into homes at double the rate of the previous generation. We are talking about the Generation Y here.

What does Generation Y feel about real estate? So these are our first-time home buyers. An overwhelming 85.7% agreed with the statement that they wanted to own property during their lifetime, and that it was preferable to renting. Those numbers, though, were skewed, and you can see the skew based on affordability. And 90.5% of Québecers—these are Gen Ys, young people—wanted to own their homes, and that dropped to about 80% in B.C., our most expensive market.

Trust, however, in real estate or the real estate market remains very high. As much as 80.3% of Generation Y believes real estate is a good investment, and 88.7% of baby boomers think the same. As a matter of fact, if you dig into the differences between Gen Y and baby boomers, you would find many more similarities than you do find differences, including their love of the suburbs. We believed that with the rise in the number of young people living in our downtown cores, there would be a corresponding fall in the desire to live in the suburbs. But our research into baby boomers who start families say they want to live in the suburbs with almost the same degree of desire that their parents, the baby boomer generation did 25 years earlier which probably explains why we have not seen declines in the value of our suburban properties. We have got baby boomers who are not getting out of the way because they want places for their kids who have not left yet and for their toys, and we have got young couples who want to move from downtowns into the 'burbs to raise their families.

It is a very fascinating industry, the real estate industry. I am often asked, "When is it all going to end? How can you continue to be optimistic?" But I believe if you are an optimist for Canada, and you are an optimist for the Canadian economy, you are an optimist for the Canadian housing industry. We have an educated workforce, abundant natural resources, strong financial institutions and immigration that outstrips almost all leading western nations. Brand Canada is a very strong brand in the world, and all of this points back to supporting the housing industry.

I have been involved in some interesting debates about the housing industry. One of the more interesting ones was a TV debate with a fellow by the name of Richard Florida, who spoke very strongly during the American recession against home ownership, although he told me privately that he owned three homes. But that is beside the point.

Academic versus actual, and part of his argument was that citizenship did not align to home ownership, and, in fact, if you look abroad, if you look at Switzerland, if you look at Germany, where home ownership rates are closer to 50% rather than 70% or even lower in Switzerland, it is true, but in Canada I believe—and in America—that owning a piece of the land dates right back to our pilgrim DNA, the homesteading nature of who we are. And the research does show that home owners retire richer, healthier and happier than those who are not.

And with that I would like to thank you for your attention and turn things back over to our Chair.

Questions & Answers

Q: Phil, with the GTA housing market, what impact does the Greenbelt have on that?

PS: So the impact of both policy and natural barriers to sprawl have a couple of impacts. One is very positive: It makes us make more effective use of limited resources. There is nothing that is a less effective use of sewage, water, power than sprawling suburban acreages. They are lovely, but they use a lot of resources per human being, so density is, in fact, I believe good for the public good. In terms of the real estate market itself, it clearly restricts our ability to meet demand, particularly, for single family homes. You can always go up, and that is what we have been doing in Toronto, but you can no longer go out. So I believe we have structural, long-term shortage, supply shortage, built into the single family home inventory in Toronto. And we will see over the long-term, larger home price increases in Toronto than other cities as a result.

Q: Phil, excellent presentation. I would be interested in asking a question on the federal government's recent moves over the last year or so to tighten down on the availability of mortgage money. They had opened it up a little bit. You saw the growth of the 5% down allowing a number of first-time

buyers to get in the market. Federal government saw what was happening in the U.S. I think they incorrectly overreacted in Canada, and I would be interested on your thoughts on it.

PS: So the tightening of access to insured mortgages. So, in general, I support the move. I mentioned earlier that the growth in indebtedness had risen at a faster rate than other general economic indicators, and it is troublesome. I think the key is the timing, so if you look at, say, the four key ones that were done, and then you go back to 2007, and you look at the timing of a liberal move when amortization periods were increased and down payment requirements were declined, that was done at the peak of the expansion, so I called it at the time "throwing fire or gasoline on to a fire." It was a hot market, and it needed no stimulus, and it was done, really, I believe, in response to the liberalization of lending practices in the United States. And it was silly timing.

But then we got into the post-recession period where there was that irrational exuberance, and I believe the measures that were taken were the right ones. They were not heavy-handed. They slowed the market, but they did not kill the recovery because we were very much still worried about economic recovery even if we were not worried about the housing market recovery. And the residential housing market played a very important role in Canada's rebound from the 2008–2009 recession. But in terms of timing, the last change that was implemented was also poor timing. Call it "politically motivated." I believe that it came at a time when the market was clearly slowing. I talked earlier about the correction that nobody noticed. The number of transactions were falling. The rate of price appreciation was falling, and so sometimes these public policy changes in areas like this can be very helpful, and sometimes they are out of step with what is really happening in the marketplace.

Q: Hi. Thank you for the presentation, by the way. My question is for western Canada, specifically, the market of Calgary, Red Deer, and Edmonton. Grand Prairie–Fort McMurray has laid off over 40,000 people in the last four months. So the fact that they are resilient et cetera is very optimistic. Thousands of homes have been impacted, and I have received notice from some of my investment properties. My tenants are giving 60-day notice because they are good people—hard-working—but they have been laid off. Is Royal LePage, specifically, making any studies to get some stats to keep us current with the market in the west?

PS: So two parts to your question. One, in terms of the information available—and, yes, we report regularly on what is happening in Alberta, and you can find that

at royallepage.ca. In terms of Alberta overall, Alberta was late to the recessionary recovery, so home prices did not start to rise until, really, 2012 in Alberta, whereas the rest of the country it started in 2010. And yes, we saw some greater than inflationary increases in home prices there over the 2012–2014 time period—a very short time period but not as great as Toronto or Vancouver. So, really, we are not overpriced in the Alberta market. So price is not an issue.

The other thing that will mitigate the downside is there was a chronic shortage of properties available, so the vacancy rate is as low as anywhere in the country except, perhaps, Regina, Saskatoon and the multiple-offer problem in Calgary was a great one. So there is a lot of excess demand. I would wait through the true spring market to get a feel for the impact of the job reductions in Alberta. Many of the big numbers we are hearing are in fact the projected hiring of cancelled capital projects as opposed to actual people that are working today that will not be working tomorrow, so I think we need to see the market roll into true spring, and see if there are people that are confident enough in their jobs that they are going to take advantage of a little break in the market to actually buy a home or if in fact we are looking at a significant and extended downturn for the Alberta market, which is possible, particularly, if the consumer confidence is aligned

with the feeling that low oil prices with prevail for an extended period of time.

Q: We hear a lot of economists referring to these overvalued markets in Vancouver, Calgary and Toronto, and you always wonder what they are benchmarking against to come to those comparisons or those comparables. I mean, Chicago is more or less the same size as Toronto. Is that what they are comparing to, and is that not apples and oranges when you get into those types of comparisons?

PS: A very good question, and if you think back to my comparison of a Moncton versus a Vancouver house, it really, to me, hammers home just how different real property is valued because I can tell you a teacher, an engineer, does not make nine times more in Vancouver than they do in Moncton. You are just poorer, and, in fact, if you were to turn to our friends at TD Bank or Royal Bank or something and look at their affordability data, you would see affordability of homes is radically different in different parts of our country. It can be that as low as 30% of disposable income goes to principal, interest, taxes, utilities in Atlantic Canada and 75% or even higher in parts of Vancouver. Imagine spending 75% of what you have just to put a roof over your head. But people are willing to do it, and they are willing to do it in places like San Francisco and New York and Mumbai and other great cities in the world. If you step

back, and you look at the price of a home, a suburban home, in Surrey or Burnaby or White Rock or some of the suburban areas the same way that we are familiar with the prices in Oshawa or Burlington versus Forest Hill or something, you know, there are alternatives in Canada, and that is what keeps home ownership rates up. One thing, and just a little extension to that: It is not foreign ownership, so there is a feeling that foreign ownership in Vancouver is what is driven home prices so high. CMHC did an excellent job recently of sort of ferreting out the actual level of foreign ownership in our big cities. And even in Vancouver, it is less than 2.5%, so between 2.5% in Toronto. And in our other cities it is well, well less than 1%. So it is Canadians—now they may be immigrant Canadians or they may be Canadian-born Canadians—that are buying the majority of these properties and driving prices where they are going.

Q: I have been trying to think of how to word this, and it is an extenuation of our conversation over lunch, so I hope you are partly clairvoyant. I am wondering whether urban policy, especially, as it relates to things like social housing and what is happening with the real estate market, would have any sort of advantage if it was somehow done to help with those who are the working poor, the hard-to-house, the artists, et cetera in our market?

PS: Let me take this social policy that relates to housing. I will take it a slightly different way. I mentioned micro-condos earlier. So we are looking for a change in public policy to actually allow condominiums to be built as small as the markets demanding them. So in some of our municipalities, you cannot build anything under 400 square feet, for example. And the market really says you have to get down to 250 to hit the price point that makes sense in some of our big cities. So it is happening. We are seeing a policy change that allows young people to live where they want—young people and people that cannot afford a larger house. But, this is an interesting other side of the coin and where you have to look forward ten or 20 years because when you build these projects, they are there for a very long time. The farsighted planners in our big cities are starting to look at the other side of the equation. When you get these young people that meet other young people, and they start families, you cannot live in 250 square feet anymore. So the market today is for units of this size, and there is a real dearth of even two bedroom units, let alone three-bedroom units. So we need to look ahead and say if we are going to have vibrant communities that survive change in demographics and swings in populations and support children and schools and things, we need today to start legislating builders to include two- and three-bedroom units, a

certain number of them in our projects and not just create these massive towers of shoebox condos.

Maybe just another short extension to that and feeding off something we talked about at lunch: I am a big believer in the use of the arts to grow healthy inner cities. We see excellent examples around the world. Dublin is often used as one that uses income tax policy and other forms of tax credit policy to create artist districts, to bring people into the city cores and allow them to afford to live in an area where they just could not live any other way.

The challenge is—and the people that live in the Beach will tell you this if you go back 20 years ago—it was a cool place to live, and now it is full of rich yuppies. So you know the problem is people want to live around artists and cool people, and then they raise property prices, and then, over time, the artists cannot afford to live there anymore. So it is a moving target, but I think it is a worthwhile one for our city fathers, our urban planners to look at because it is with that kind of forethought that we will have healthy, thriving cores, and we will not cycle back into where we were in the '70s and '80s with dead and empty downtowns after people went home from work.

Note of Appreciation, by Ciro DeCiantis, Partner and National Real Estate Leader, Deloitte

Thank you, Gordon. Phil, thank you, for your comments and reflections today. They were insightful, particularly, as they relate to that most significant part of our economy that all of us interrelate most personally in terms of how we measure our own personal wealth as a primary indicator of the current and future health of our economy and of the country, generally, and as you said earlier, in a very personal context as the places where we live and undertake the most basic activities of life.

As representatives of Deloitte and, in particular, our Deloitte Real Estate team, both Sheila and I are very thankful of the opportunity to sponsor today's event, and we are very proud to have Brookfield Real Estate Services and the broader Brookfield Group as a very important client of our firm. So, thank you, again, Phil, and to the Empire Club for the opportunity to share this time with you at this great event.

Thank you.

Concluding Remarks, by Dr. Gordon McIvor

Thank you very much, Ciro. And, thank you, to Deloitte for sponsoring today's event. We would also like to thank the *National Post* as our print media sponsor, and, of course, we would like to thank Rogers as our broadcast media sponsor. This speech will be heard on television on several occasions over the weeks to come.

Please, follow us on Twitter at @Empire_Club, and visit us on line at www.empireclub.org. Thank you all for coming, and, please, join us again on March the 5th when we have Mr. Meric Gertler, the President of the University of Toronto.

Thank you, ladies and gentlemen. This meeting is now adjourned.