LEFT: DARRIN KLIMEK

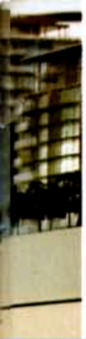
PIE IN THE SKY

IT MAY BE TOO LATE FOR INVESTORS TO CASH IN BIG ON THE SWEET MARKET FOR CONDOS | by Calvin Leung

Brad Lamb is known for his bad taste—a reputation entirely of his own doing. The Toronto-based real estate broker has spent millions on some of the cheesiest ads to ever appear in the country. In one billboard campaign for Brad J. Lamb Realty Inc., his bald head appears superimposed on a lamb's body, which is surrounded by normal animals. The tag line? "We stand out in a crowd." One of his commercials—which was shown on bathroom wall monitors among other places—flashes promises of making riches off real estate and ends with Lamb standing beside his silver Bentley Continental GT.

Tacky? Yes, but his company sold more than half a billion dollars' worth of condos last year. While Lamb, who is also a developer, admits his commercials have "no artistic merit," he feels he has acquired a fine appreciation for condo design. For instance, he calls Cube, a collection of modern box-shaped lofts that he sold in Toronto's Little Italy district, "high architecture." Of Massey Square Condos & Townhouses, a beige brick-and-glass structure in the city's west end, he says, "We should evacuate that building. Blow it up, and start over."

Ugly or not, condos have been selling at a furious pace. Sales of existing units in Toronto last year surpassed 20,000, nearly double the activity 10 years ago, while average prices in the central part of the city rose 12.2% to $327,559. For many residents, condos have simply become the only affordable form of home ownership, with detached homes downtown fetching nearly $1 million on average at the end of 2007. The condo



Brad Lamb (left), Vancouver's Shangri-La, and Toronto's Four Seasons Private Residences

business has also been brisk elsewhere. Prices in Calgary jumped 20%, and they increased 11.4% in Edmonton. Vancouver's already-expensive units appreciated 14.5% to $378,000. In Montreal, the growing number of people 55 and older (now a quarter of the city's 1.6-million population) and a slight increase in employment helped push condo prices up a moderate 6% last year.

But the market has lately been losing some of its steam. There were almost four times as many condos in Calgary for sale at the end of March than a year ago, and average monthly prices have pretty much stopped appreciating. "Sellers aren't acknowledging it's no longer the spring of 2007, when anything sold immediately, and buyers are reluctant to pay those prices," says Gerald Rotering, a Calgary-based real estate agent specializing in condos. In Montreal, there are now 10 condo listings for every buyer, says Bob Taylor, a condo real estate agent in the city, which means prices will likely remain flat this year.

Although prices continue to rise in Vancouver, sales volume dipped 6% in February. Ozzie Jurock, a Vancouver-based real estate expert whose advice appears in the Donald's latest book, *Trump: The Best Real Estate Advice I Ever Received*, isn't too concerned about that decline. Nevertheless, he anticipates local prices to dip 5% over the next 18 months, in part because of the relatively high percentage of average income needed to service a condo mortgage. "It's totally out of whack," he says. Jurock has greater concerns for the Toronto condo market, believing a combination of over-construction, Ontario's reliance on the weakening manufacturing sector, and American economic woes will contribute to a 10%–15% drop in volume in the market before the end of 2009.

Lamb, arguably Toronto's biggest champion of condo living, isn't hitting the panic button yet either. But he says sellers will be lucky to see 5% price increases in the near term. Indeed, a recent report from the Conference Board of Canada and mortgage insurer Genworth Financial Canada estimates Toronto condo prices will rise only 2.9% in 2008, 2.5% in 2009 and then 3.5% per year for the following three years. Increases in other big cities will fall somewhere between 2% and 4% per year over the next five years.

Those kinds of numbers have fuelled talk of a real estate bubble in places such as Vancouver and Calgary. But a PricewaterhouseCoopers report last fall stated that the country's strong economy, relative investor restraint and government policies will steer the market away from such traps. That said, Jurock points out nearly all of the predictions made a few years ago about condo prices in major cities underestimated the actual rises. It's not hard to imagine industry experts could be equally wrong about the extent of any corrections.

In any case, a smallish downturn likely wouldn't affect the emerging luxury condo segment. The ultra-rich can buy a condo—ranging in size from 1,000 to 9,000 square feet—in the soon-to-be-built Four Seasons Private Residence in Toronto's upscale Yorkville area for $1.6 million and up. But the price insensitivity of these kinds of properties, which include the Shangri-La in Vancouver, has nothing to do with value for money, but rather buyer impulsiveness. "For this realm of people, doing due diligence on price flies out the window," says Lamb. He does caution against buying condos in stylish Toronto buildings such as Pier 27, L Tower, 1 Bloor East and Aura. "Those buildings have primarily been bought by investors who believe there will be a greater fool to buy their units."

While foolish investors may be attracted to flashy condo projects, savvy ones will target condos in up-and-coming areas. Lamb says the "smart money" is developing in the east end of Toronto, which is quickly transforming from its roots as a working-class neighbourhood to one filled with young professionals and boutique shops. Those with a stomach for more risk may consider projects around the intersection of Keele and Dundas streets. But, as Lamb points out, the area hasn't been proven, and a developer who builds in that area is still a bit of a pioneer.

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Gentrification is also at work in southwest Montreal, which was formerly an industrial district. "We are seeing more interest in that area of town," says Astrid Joseph, an analyst with the Canada Housing and Mortgage Corp. "When we have a strong demand for an area, we usually have an above-average increase in price." Calgarians have a similar opportunity in Victoria Crossing. "It's a classic example of inner-city decline and resurgence," says Rotering, who currently lives in the area.

Although uncertainty exists, Lamb insists Toronto, for one, has a bright future. Land for development has become increasingly scarce, and there are typically 10 to 12 bidders for every property. What's more, developers typically pay a premium for the land, banking on being able to convince the city's planning department to let them build one or two extra floors to boost their profit margins. Lamb even recently submitted to a grilling about his intentions by one property owner. Lamb obliged, but had that request come five years ago, he would have had a different response—one that would have included a four-letter word. "Now, it's whatever it takes."