



# Brian Madigan LL.B.

Sales Representative

## Real Estate Review

August 2007

### Toronto Market ~ The Cycle Starts Again

Did you hear what areas are hot in Toronto? Forest Hill, Chaplin Estates and Deer Park are up 16.8% over last year (as of 31 July). That's interesting because the overall market is generally up about 4%.

So, why are these areas so hot? I have to add one other piece of information. Scarborough was the top performer last year, with a 21% increase. Other areas moving up smartly in prices over the last year include Thornhill (15%), Yorkville and the Annex (14.3%), Willowdale (12.2%) and Mineola (11.3%).

Three areas I traditionally watch, as the indicator of a new rise in prices are Forest Hill, The Kingsway and Mineola. Due to statistical reasons is The Kingsway is not separately reported. These are good areas, constantly in high demand. When their prices haven't moved for a while, they soon will. That's because in any cycle, they move first and the less desirable areas move last.

In order to restore some kind of equilibrium, they will move again, and when they do it's an indicator of a new rise in prices across the board. Scarborough will play "catch-up", so if the market continues to be active for a sustained period of time, Scarborough will be due once again. And, after that happens, Forest Hill, The Kingsway and Mineola will suddenly become the hot real estate neighbourhoods. But, aren't they always good neighbourhoods? Modest risk, rising values and sustainable demand, they make good choices for a real estate investment at anytime.

However, if you are waiting for "market timing", buy Forest Hill, The Kingsway and Mineola when you read the good news about Scarborough.

#### Opportunities

Land for development, 10 acres	\$4.5 million
Highway commercial zoning	\$3.2 million
Ontario Winery	\$4.99 million
Retirement Home	\$2.8 million
Live/Work Building	\$1.0 million
Caledon Bungalow	\$656,000
Bakery	\$275,000
Mississauga Restaurant	\$385,000
Toronto Bungalow	\$499,000
Toronto Rooming House	\$549,000
Toronto Bungalow	\$249,000
Spa	\$199,000
Maternity/Baby Superstore	\$85,000

### Mortgage Consulting

In the United States, American Home Mortgage filed for bankruptcy. It was NOT a sub-prime lender. It was the 10th largest residential mortgage lender in the states. South of the border, people have simply been buying what they can't afford.



### Toronto Taxes ~ Prolonged Underfunding

With all the debate growing on in Toronto about taxes you would think that there was some major issue. But, there isn't.

There just isn't enough money to run the City. And, is it any wonder? The municipal taxes in the City of Toronto have been crazy for years. Actually, at least 40 years, so it's nothing new.

Here was the great plan of the municipal councilors for the last several decades: let's **tax the businesses**, and keep the **residential taxes down**. Of course, it's the residential vote that carries a municipal election.

So, over time the business taxes in the downtown core keep rising exponentially. Over 20 years ago, this prompted a mass **exodus of businesses** to Office nodes in North York, Scarborough and Mississauga. Etobicoke was planning to have a downtown, but it took them from 1967 to the time of amalgamation to hire consultants and to rehire new consultants. So, they never got a downtown.

Taxes for residences remained low. But, compared to what? Compared to what is now referred to as the "905". **Mississauga residential taxes** have been about **double** the comparable Toronto taxes for decades.

Finally, after decades of underfunding, it's not hard to figure out that there's going to be a problem.

So, why punish outsiders? Why propose new taxes that will be imposed upon the "905" residents, when they want to travel to Toronto. Why doesn't Toronto simply raise its own residential taxes across the board to bring in the revenues that it needs to run the city.

The answer is not cutting programs, closing swimming pools, cutting the hours and closing libraries, as suggested by the Mayor. This is a silly approach. And, threatening to cut the TTC and close the subway system is just as silly. It's one thing for the Mayor to have a "boyish" look, but it's quite another to be acting "childish".

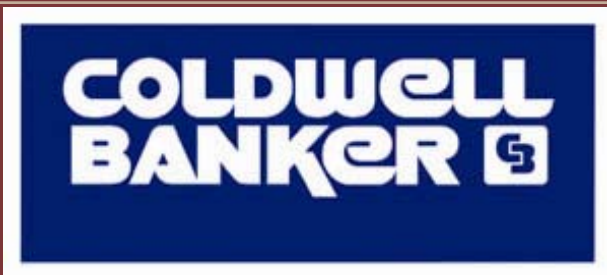
These were of course proposals by the Mayor when he didn't get his \$600 million surcharge in land transfer taxes. That was defeated by many vested interest groups including realtors who claimed the Toronto market would go into a tailspin.

However, they obviously didn't consult an economist. The \$600 million is just 2% of the annual value of property traded in Toronto. It's a drop in the bucket. Nothing much was going to happen. For the first little while the impact would be absorbed by owners near the "905" but, after a short while it would simply be absorbed into the market values. Even if we use a very conservative 4% annual increase in values, this would only have taken 6 months to absorb the 2% increase.

So, let's look at a quick example. A property worth \$800,000 in Toronto pays \$4,116.00 in taxes whereas another one worth the same amount in Mississauga pays \$6,537.00; over 10 years even without increases this would amount to \$24,210.00. But, this has been going on for over 40 years, so that's over \$100,000.00 in today's dollars. That's a lot of money, and that's where **the problem is. Prolonged underfunding!**

The attempt by Toronto City Council to make it a Provincial election issue is simply an exercise in futility and demonstrates that the municipal system as it stands simply doesn't work.

The Province should appoint a Supervisor to take over all the duties and responsibilities of the Council, just as it has for school boards and hospitals which have been unable to manage the public purse.



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BRMadigan@rogers.com



## The Phantom Offers

The real question is: does the phantom offer really exist! Maybe, and maybe not.

A phantom offer, of course, is an offer which is make-believe, it's imaginary, it's simply pure fabrication. The offer exists only in someone's mind. Now, the question

is who?

With the hot real estate market in Toronto, more and more phantom offers seem to be in existence.

Recently, the issue surfaced in the election of a new President for the Toronto Real Estate Board. One candidate thought that there should be a better process and that offers should be properly registered. The other candidate thought that the status quo was fine. In fact, she had never experienced any phantom offers, nor was she aware of them. However, we won't likely see any changes since she won the election.

Phantom offers have become a rather widespread and growing problem. Yes, most agents have heard of them! These are offers that come out of nowhere.

A prospective buyer views a property and decides to submit an offer. All of a sudden, they hear "there's another offer". So now, rather than being able to negotiate they pretty well have to come up with the best overall offer that they can. Often this means deleting any conditions they might have had regarding the purchase including financing and home inspection. There are times when this can be crucial.

So, the a couple of things happen:

- 1) they are told that they are **in competition**,
- 2) both offers are **very close** to one another,
- 3) they should **go back**, revise their offer, and then re-submit it.

It has also been rumoured that some agents have arranged for their friends, relatives, and other agents to park their cars outside the house the evening that offers are submitted to create a frenzy of activity. Talk about home-staging, this really takes it to the next level. Stanley Kubrick and Steven Spielberg would be proud to have staged such a production.

Bidding wars have become the "norm". However, surely not all properties are really worth fighting about.

And, of course, all these **phantom offers are illegal**. The present ethical guidelines clearly prevent this sort of tactic. Not only is it wrong and deceptive, it is against the law. There are consumer protection laws in the Province as well as federal legislation in the *Competition Act* and the *Criminal Code* which would prevent this type of behaviour.

If the status quo remains in place, then nothing is going to happen.

The real problem is that phantom offers although often suspected are rarely reported. Agents frequently don't want to become involved in this type of controversy. As a result, it falls to the Real Estate Council of Ontario (RECO) to investigate. And while they will, they first need these cases to be reported.

Actually, it is a lot like "speeding". There are already rules against speeding, but if the police never set up radar, then it's unlikely anyone is ever going to be caught.

This is a matter of ethics, and it first should be addressed by the industry. The failure of the industry to police itself, reflects very poorly upon the industry.

In a hot market, on many occasions, there truly are second, third or multiple offers. But, surely there isn't always a mysterious second offer that suddenly materializes the same day as the first offer, after the property has been on the market for over 2 months. And, this same coincidence seems to follow the same listing agents.

Let me suggest the following:

- 1) all offers shall be properly registered,
- 2) the broker is responsible to maintain copies of all offers submitted through his office,
- 3) RECO shall periodically review the files of a brokerage to ensure that offers were in existence and legitimate in multiple offer circumstances.

If this is the case, then this is like radar for phantom offers. The perpetrators are caught and punished, then this will deter others and be of ultimate benefit to the consumer. in his name.

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## Multiple Offers

In Toronto's competitive marketplace, buyers have to expect that they may be in a multiple offer environment.

Basically, this means that their first offer will either be their best offer, or very close to it.

In order to elicit multiple offers agents will:

- 1) **delay** the presentation of **offers** for one week to allow everyone to view the property,
- 2) **underlist** the property (that is set a very low asking price), so that enthusiasm is created among purchasers,
- 3) obtain a home **inspection report** and make it available for review.

A buyer should have a pre-approved mortgage. There's no point putting in a condition such as financing, when there are five or six other bids. And, if you are not prepared to offer a high price, unconditionally and a short closing, then you will simply be sitting on the sidelines, waiting for the next property to come along.

The only real way to avoid this is to either obtain a pre-approval from the bank, secure some interim financing so that you will be covered if you have to carry two properties for a short period of time, or simply focus on an area where there are relatively few multiple offers.

As global warming heats up the summer, the summer market should somewhat cool down. This might minimize the number of multiple offers situations and normalize the market.



## Bully Offers

This is an offer which includes a short irrevocable date, in a delayed offer presentation format. As listing agents do their best to encourage multiple offers, buyer's agents are reacting by trying to level the playing field.

In one case, a property was listed at a price below the price that the present owners had paid when they purchased the property 3 years previously. And, they had done substantial renovations. So, rather than pick the right listing price, they chose a price so low that multiple offers would be inevitable.

Naturally, the agent said "no offers until Saturday". But, along came an offer anyway, and it said that it had to be accepted "by Friday". It was a very good offer at a very good price. Legally, the agent is under an obligation to present all offers to the principal. They can be encouraged to re-submit, but if the purchaser doesn't agree, the offer has to be submitted prior to its expiration on Friday.

The offer was a good one, and the seller accepted it. The buyer with the "bully offer" was happy, but what about everyone else? Is this legal, is it ethical, is it moral?

Obviously, it makes a sham of the system. The Saturday prospective purchasers were all disappointed, but they had participated in a process which drove the price up for the vendor. The owner was clearly permitted to sell to whomever he chose, and whenever he chose. The agent was under a legal obligation to present the bully offer. So, what can be done?

The aggrieved Saturday purchasers might consider suing! Yes, they could sue for damages and the measure of damages would be up to the Court. This is not unlike tender situations eliciting competitive bids in the construction industry. An owner may be liable in damages for failing to adhere to the tender system. It was this tender system in the first place which allowed the vendor to secure competitive bids. The Supreme Court of Canada has made the owner liable to aggrieved tenderers where their bids have not been accepted, yet they have complied with the tender rules.

So the term "bully offer" is somewhat pejorative. The purchaser has done nothing wrong, the purchaser's agent has done nothing wrong and yet this short irrevocable offer is referred to as a "bully offer". By the same token, the people at risk of complaint and potential lawsuits are the owner and the owner's agent. They are the ones who have failed to honour their obligations. Sometimes, greed gets the best of people.

All in all, this multiple offer process needs some attention and revamping in order to restore the confidence of the consumer in the system.

## Sorry no recipes!

"Don't worry about the world coming to an end today, its already tomorrow in Australia—  
Charles Shultz