

## ORES Real Estate Index for March 2009



**By Brian Madigan LL.B.**

The markets have shown a significant sign of recovery this Spring.

This follows a substantial stock market crash, a worldwide financial crisis, and elections in both the US and Canada during the last quarter of 2008.

I set up the ORES Real Estate Index last year. In many ways it is like the CPI (consumer price index) in the sense that it is designed to track values over a period of time.

The Index commenced 1 January 2004. All related prices were converted to 100, so everything to be compared would have a common starting point.

### **Single Family Housing in the GTA**

When you are looking at house prices for single family homes in the GTA, you will find the following:

123.28.....31 March 2009  
123.08.....28 February 2009  
117.93.....31 January 2009  
122.85.....31 December 2008  
124.80.....30 November 2008  
120.38.....31 October 2008  
124.60.....30 September 2008  
131.53..... 30 June 2008  
132.11.....31 May 2008  
132.24 .... 30 April 2008  
127.42..... 31 March 2008  
127.86..... 29 February 2008  
125.63..... 31 January 2008  
126.31..... 31 December 2007  
130.76..... 30 November 2007  
130.98..... 31 October 2007  
100.00..... 1 January 2004

This means that the average price for single family homes in the Greater Toronto area has increased 23.28% in 63 months. So, this is 0.37% per month or 4.43% per year. You will also see that the height of the market was reached in April 2008. Traditionally, the peak is reached in May.

There were several remarkable factors that occurred in the month of October 2008:

- Worldwide stock market crash
- Worldwide liquidity crisis
- Commodity price declines in every sector
- Expectation of a worldwide recession
- expectation of numerous bank failures

These factors were very unusual, with media reports noting comparisons to the Great Depression in the early 1930's. So, all of these numbers have to be viewed in the context of the world markets and the international media in the month of October.

The year ended at 122.85 and trended lower in January to 117.93. Sales volumes were off substantially: down by one third in January and one fifth in February. The good news was that the average price increased by 5.14% in February to 123.08, and slightly more in March to 123.28.

### **Condominium Market in the GTA**

Here are the comparable statistics for condominiums throughout the GTA:

113.56.....31 March 2009  
112.65.....28 February 2009  
112.53.....31 January 2009  
122.61.... 30 April 2008  
123.17..... 31 October 2007  
100.00..... 1 January 2004

You will notice that the overall performance is less than the comparative single family home. The condo prices rose slightly during the month however the performance trails the single family homes.

### **Central Condominiums**

Let's have a look at the parts of the condo market. The numbers for centrally located condos illustrate a very notable decline. These are the ones in downtown Toronto:

135.32.....31 March 2009  
134.89.....28 February 2009

136.76.....31 January 2009  
152.99.... 30 April 2008  
153.06..... 31 October 2007  
100.00..... 1 January 2004

There has been a trend to downtown centrally located condos over the last four years. That appears to be changing. I had previously reported that “one might expect a decline in prices due to the increase in supply”. The downtown condo market was vulnerable. On a 5 year basis, it is still the best performer, but recently it shows the largest decreases. This particular market is vulnerable.

### **East Condominiums**

These are the condos in the eastern areas served by the Toronto Real Estate Board. Here's the performance:

122.58.....31 March 2009  
122.08.....28 February 2009  
122.62.....31 January 2009  
130.07.... 30 April 2008  
121.04..... 31 October 2007  
100.00..... 1 January 2004

This market generally has performed quite well. The performance has been very stable and has shown decreases in line with single family homes.

### **North Condominiums**

Here the numbers here are somewhat lower:

117.12.....31 March 2009  
116.33.....28 February 2009  
112.42.....31 January 2009  
111.09.... 30 April 2008  
125.36..... 31 October 2007  
100.00..... 1 January 2004

While the north condos continue to show relatively poor performance, you will notice that it showing stability. I should point out that the few months following inception of the index were not kind to the north condos. They dropped about 30% in value. If the index were changed to 48 months rather than 63 months as it is now, the performance here would be considerably different.

### **West Condominiums**

The west condominiums increased slightly over the month and overall the performance is demonstrating reasonable stability:

119.89.....31 March 2009  
117.68.....28 February 2009  
118.18.....31 January 2009  
127.50.... 30 April 2008  
119.39..... 31 October 2007  
100.00..... 1 January 2004

## **Market indicators, factors and conclusions**

There are a few general conclusions that may be drawn:

- You were better to have a downtown Toronto condominium over the last 5 years (actually 63 months) than other property (135.32)
- Single family homes provided a reasonable benchmark rate of return (123.28)
- East condominiums performed reasonably well (122.58)
- West condominiums seem to be reasonably stable (119.89)
- North condos continue to be the poor cousin in the market (117.12)

The downtown Toronto Condominium market is the best performing residential real estate over the last five years in the GTA. By comparison, it rates particularly well in relationship to other financial and economic benchmarks. But, that does not make it a “buy”. It is now showing its vulnerability to the market forces. It is probably overbuilt now, and further declines may be expected. Essentially, there is too much new product coming onto the market.

Mark Twain once said “Buy land, they're not making it anymore”, but that’s really not the case particularly when you are talking about downtown condos. And, while quoting Mark Twain don’t forget that he also said “Get your facts first, then you can distort them as you please.”

## **Other Market Comparisons**

Sometimes, it is wise to look at some other market factors. So, I have converted some popular indexes and commodity prices to the ORES format. Basically, that means that all other indexes (and commodity prices) are given a base level 100 starting point as of 1 January 2004. To illustrate the current trend, the February 2009 and January 2009 numbers follow in brackets. Here is the comparison:

188.41.....(190.62)..... (188.55)..... gold (per ounce)  
169.13.....(148.11)..... (151.21)..... oil (per barrel)

123.28.....(123.08)..... (117.93)..... ORES Real Estate Index  
110.73.....(97.29)..... (108.16)..... TSX  
82.16.....(66.61)..... (78.09).....Nasdaq  
75.38.....(62.87).....(77.66)..... Dow Jones Industrial  
74.10.....(60.25)..... (75.35)..... S&P 500

For most of the last five years, you were best to speculate in the price of oil, however you will now see that with all the recessionary forces in play that gold is the number one performer.

The real estate index has moved up, and despite dropping prices is now well ahead of the stock market. As an asset class, it is now third, whereas six months earlier, it would have been fourth. This fact reinforces that real estate is a good long term performer.

Our own stock market has fared pretty well compared to the substantial declines in the US. At the lower end of performance is the US stock market with all three indices at the bottom of the overall performance scale.

Real estate seems to be about where it should be: not too high and not too low. As I had mentioned earlier, real estate generally shows a 5% long term return, and right now the numbers show 4.43% as measured over the last 63 months.

While the longer term performance of real estate is off slightly, this would suggest that there is room in the future to recapture some of this ground. And, when it comes to prices and a recession, you will see real estate as a relatively strong performer.

*Brian Madigan LL.B., Realtor is an author and commentator on real estate matters, Coldwell Banker Innovators Realty*  
905-796-8888  
[www.OntarioRealEstateSource.com](http://www.OntarioRealEstateSource.com)