

ORES Real Estate Index for November 2008



By Brian Madigan LL.B.

This is a very important month for statistics. This follows a substantial stock market crash, a worldwide financial crisis, and elections in both the US and Canada. Remember that last month's statistics carried half the month without anyone appreciating the impact of all of these issues.

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:

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 24.80% in 59 months. So, this is 0.42% per month or 5.04% per year. You will also see that the height of the market was reached in April. Traditionally, the peak is reached in May.

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

- 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. November was not that much better, in fact, markets continued to decline, but at least for the purposes of the real estate market, the crisis was known. In October, at least half the month went by without anyone knowing.

So, the interesting fact is that prices went up in November. This seems strange because sales volumes declined substantially. This year saw 3,640 transactions. Last November there were 7,313 transactions. That was a little high since the new Toronto land transfer tax was coming into force in January 2008. The correct range for November is 6,301 to 6,866. Excluding 2007, the average number is 6,409. That means a drop in sales of about 43.2% off the expected volumes.

You would expect a significant drop in prices with such a decline in sales. Obviously, some buyers are optimistic and believe the market is valued fairly. We should have seen an eight to ten percent price reduction, but instead we saw a 3.99% price increase in one month.

Condominium Market in the GTA

Here are the comparable statistics for condominiums throughout the GTA:

115.56.....30 November 2008
114.97.....31 October 2008
120.63.....30 September 2008
119.71.... 30 June 2008
119.66....31 May 2008
122.61.... 30 April 2008
118.79.... 31 March 2008
117.17..... 29 February 2008
114.39..... 31 January 2008
118.04..... 31 December 2007
120.82..... 30 November 2007

123.17..... 31 October 2007
100.00..... 1 January 2004

You will notice that the performance is less than the comparative single family home. The condo prices rose slightly during the month and 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 are going in a different direction There is a notable decline. These are the ones in downtown Toronto:

134.79.....30 November 2008
142.88.....31 October 2008
149.60.....30 September 2008
151.75..... 30 June 2008
142.41.....31 May 2008
152.99.... 30 April 2008
147.20..... 31 March 2008
140.37..... 29 February 2008
141.90..... 31 January 2008
144.50..... 31 December 2007
151.04..... 30 November 2007
153.06..... 31 October 2007
100.00..... 1 January 2004

The trend to downtown centrally located condos is evident over the last four years. I had previously reported that "one might expect a decline in prices due to the increase in supply". The downtown condo market was vulnerable. However on a close to 5 year basis, it is still the best performer.

East Condominiums

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

132.92.....30 November 2008
126.40.....31 October 2008
132.67.....30 September 2008
129.42.... 30 June 2008
130.76.....31 May 2008
130.07.... 30 April 2008
124.80.... 31 March 2008
124.45..... 29 February 2008
123.00..... 31 January 2008
129.11..... 31 December 2007

125.50..... 30 November 2007
121.04..... 31 October 2007
100.00..... 1 January 2004

This market generally has performed quite well. The performance is almost the same the downtown condos and exceeds single family homes.

North Condominiums

The numbers here are somewhat of an aberration:

112.17.....30 November 2008
103.65.....31 October 2008
110.50.....30 September 2008
111.85.... 30 June 2008
114.69....31 May 2008
111.09.... 30 April 2008
115.11..... 31 March 2008
114.14..... 29 February 2008
108.10..... 31 January 2008
112.33..... 31 December 2007
118.18..... 30 November 2007
125.36..... 31 October 2007
100.00..... 1 January 2004

The north condos continue to show poor performance. However, you will notice that it was the big performer in the month. 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 59 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:

125.19.....30 November 2008
124.10.....31 October 2008
126.10.....30 September 2008
117.61.... 30 June 2008
127.64....31 May 2008
127.50.... 30 April 2008
119.25..... 31 March 2008
124.11..... 29 February 2008
116.24..... 31 January 2008
118.61..... 31 December 2007

116.57..... 30 November 2007
119.39..... 31 October 2007
123.42..... 30 September 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 59 months) than other property (134.79)
- Single family homes provided a reasonable benchmark rate of return (124.80)
- East condominiums performed reasonably well (132.92)
- North condominiums continue to be the poor cousin in the market (112.17)
- west condos exceed the performance of single family homes (125.19)

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 it’s vulnerability to the market forces. It is probably overbuilt now, and further declines may be expected.

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 October 2008 and September 2008 numbers follow in brackets. Here is the comparison:

177.06.....(197.02)..... (227.70)..... oil (per barrel)
176.15.....(164.67)..... (181.63)..... gold (per ounce)
124.80.....(120.38)..... (124.60)..... ORES Real Estate Index
113.80.....(118.79)..... (135.45)..... TSX
86.24.....(91.66).....(105.46)..... Dow Jones Industrial
80.88.....(88.34)..... (104.91)..... S&P 500
77.75.....(88.54)..... (105.38)..... Nasdaq

Over that period of time, you were best to speculate in the price of oil, failing that gold was the next best choice.

The real estate index is moving up. As an asset class, it is now third, whereas two 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. Our market is up 13.8%, but the US markets are down significantly compared to a 1 January 2004 starting point.

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 5.04%.

Actually, the best investment measured from the commencement of our index is gold. It has the least acquisition costs and shows the least volatility. With real estate, there are of course ongoing expenses to take into consideration. **Gold bullion as an investment appears to have been the best performer.**

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