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1 Toronto St. Photo: Courtesy of The Avison Young Group

Major issues in Ontario

By Fred Roth AACI, PLE

Tim Hudak, MPP Erie-Lincoln, Progressive Conservative Critic responsible for Public Infrastructure Renewal, and PC Caucus Chair, spoke at the Association of Ontario Land Economists' May 12 dinner meeting. He provided us with a general overview of the challenges facing government in Ontario, and recent developments and responses to these challenges by Dalton McGuinty's Liberals.

Issues he touched on included the following:

Infrastructure
Much of Ontario's infrastructure dates to the 1950's and 1960's and will require substantial investment to meet the standards of 2004. Some of the issues to be addressed by the new Government are:

Health Care: Hospitals alone require an input of $6 billion. The enormous costs will force the Liberals to become involved in some forms of private health care

Private Financing: The "sabre rattling" of the Liberals and the reaction of the new Liberal Government to Highway 407 tolls is cause for concern for any future private owner of infrastructure projects.

Hydro: The closing of coal-fired generating stations with no increases in alternative sources of power generation, may result in shortages. The Liberals are closing the door on further private investment in power infrastructure.

Public Private Partnerships
Otherwise known as P3's, Public Private Partnerships are joint infrastructure projects between the public and private sectors. Prospects of the Government entering into these arrangements vary with the nature of the works.

According to Mr. Hudak, health care is the most sensitive issue, with hydro and power generation second, and education the least politically sensitive.

Typically, the NDP will contend that the profit motive of the private sector is counter-productive, while the private sector will argue that its better efficiencies allow it to make a profit and still cost less.

OLE members on both the public and private sides of the P3 issue mentioned during the question period that scale is an important consideration in determining whether a joint undertaking is viable. A $100 million hospital is a far different undertaking than a $10 million school.

Ontario's current planning initiatives are GTA centred, says Hudak

According to one OLE member in the private sector, government agencies should just detail what is required in an infrastructure project, offer a fair profit incentive, and projects will get built.

For example, in the construction of a school, the private sector can build a facility on time and on budget, provided that the public sector agrees to lease the property back at a realistic rent and for a period sufficient for the private entrepreneur to achieve a reasonable rate of return.

Hudak said the current Liberal Government is GTA centred, so that planning initiatives are geared largely to issues present in and around the Toronto area.

A case in point is Greenbelt legislation that has been instituted affecting the fringe of Toronto. This stemmed largely from the controversy over the Oak Ridges Moraine.

In Hudak's view, the legislation may force growth to occur outside of the Greenbelt, leading to increased traffic congestion on existing roads.

There is a trend to greater input in planning at the Provincial level, he said. With greater power in planning matters resting at the Cabinet and Provincial levels, the Ontario Municipal Board will no longer have the last say in specific issues.

This will increase regulation and processing time of applications. Reduced prospects for parties to appeal matters to the Ontario Municipal Board will result in more local decision-making, and an increased voice for local ratepayer groups. This may lead to lesser prospects for intensification within urban areas due to the NIMBY (not in my back yard) viewpoint.

Rent Controls
Recently, the Government announced that it was disallowing 2.0 per cent of the automatic rent increases permitted in the past, leaving an uncontested allowable increase of only 0.9 per cent.

OLE members felt that the market was working under the existing legislation. Now, and with increases in heating and hydro costs, declining rents and vacancies due to competition from rental condominiums, investors are becoming somewhat pessimistic. Consequently, the government may take a greater role in the housing market through increased activity in public housing.

Conclusion
Speaking prior to the Provincial Budget, Hudak said the new government had so far not done any major restructuring. Treasurer Greg Sorbara's Budget would play a major role in paving the way for policy – a prediction which has certainly been borne out.

Fred Roth is vice president of appraisal company Bosley Farr & Associates Ltd., Toronto.

Horrific land shortage looming

By Frank Clayton PhD

The Greater Toronto Area is on the precipice of a horrific shortage of serviced land for affordable ground-related housing.

Over the longer term the area is widely expected to grow by an average 80,000 additional persons per year, resulting in an average 36,500 new households per year.

Already, lots are in short supply and prices are skyrocketing. According to the Ontario Urban Development Institute, as of May 2004 the year-over-year rise in the price of raw residential land ranged between 23 and 45.4 per cent in Brampton, Oakville, Mississauga and Richmond Hill.

The recent Ministerial zoning order affecting development approvals outside municipal boundaries in the Province's proposed Greenbelt area (from Niagara fruit lands to the Oak Ridges Moraine) has frozen supply in the pipeline.

If new Greenbelt Planning Reforms permanently remove supply in the Golden Horseshoe, they will sharply compound the problem.

Increased densification within urban boundaries will not solve the shortage. Our analysis of the Canada Mortgage and Housing Corporation survey of buying intentions shows that between 65 and 70 per cent of households at all ages and income levels want ground-related housing, rather than high rise apartments.

There is no land for significant ground related housing in the City of Toronto, and will not be under the City's new Official Plan, so the bulk of the new demand is felt in the 905 areas, particularly to the west and north of Toronto.

Prices will rise sharply. First-time buyers and renters will bear the brunt of rising prices. Many home buyers will be forced further afield, as in the late 1980s, in search of affordable ground-related housing. This will increase demand in lower cost areas in the east of Durham and, especially, beyond the GTA.

A lack of affordable ground-related housing for workers also will harm economic growth in the GTA.

The Greenbelt Task Force has drafted its vision and goals. Public meetings were held in May and June.

We urge Greenbelt planners and policy makers not to do anything that further restricts the potential supply of Greenfield residential land in the GTA. What is needed is more, not less, designated land to keep housing prices affordable and the economy purring.

Dr. Frank Clayton is president of Clayton Research Associates Ltd., Toronto, an urban and real estate economics consulting firm.

Rob Dowler new ADM

OLE member Rob Dowler is the new Assistant Deputy Minister, Policy and Consumer Protection Services Division, at Ontario's Ministry of Consumer and Business Services. His division is responsible for the administration of more than 20 consumer protection and business registration statutes, the provision of policy services to the Ministry, and liaison with eight delegated authorities, as well as the Ontario Film Review Board and the Alcohol and Gaming Commission of Ontario. Dowler also sits on the boards of the Electrical Safety Authority, Tarion Warranty Corporation (formerly Ontario New Home Warranty Program), and the Ontario Motor Vehicle Dealers Corporation Fund.

Mark Your Calendars!

Annual General Meeting Sept. 8, 2004

Royal Canadian Yacht Club

Island clubhouse

Remembering Arthur Langley

Arthur Langley, investment and commercial real estate expert and long time OLE member, died March 11, 2004. He was 79. Langley's long career spanned Dominion Securities, Pitfield Mackay Ross / Burns Fry, and development of new consulting and property management divisions at several major real estate companies, including A.E. LePage, Royal Trust, and W.H. Bosley. He was involved in the land assembly for both the TD Centre and Ryerson in Toronto. A Major with the Canadian Armed Services, Langley was president of the Empire Club of Canada during its 1963 Silver Jubilee Year, and active in numerous political and community organizations.

Current trends in GTA's rea

By Robin White FRICS, PLE

The Toronto real estate investment market is experiencing a surge in demand that has fueled hefty increases in prices, coupled with a downward pressure on yields. What is causing this interest in real estate, and what are the predictions that this buoyant market will continue?

Global, Economic & Social Contexts:

Demand for real estate — both family homes and investment product — has grown throughout the world in recent years. This suggests that common factors globally are behind the surge and not just local drivers. Here we examine those common factors, separating drivers of real estate demand into three closely interconnected categories, all related to recent economic uncertainty.

1. A new economic paradigm creates uncertainty:

- Structural changes in the North American economy:
  - New companies and jobs are emerging in new industries such as software, biotechnology, data processing and various types of engineering.
  - Jobs are declining in some older North American industries including primary manufacturing such as steel.
  - This has contributed to uncertainty in the economy and the stock market.
- Internationalization of business:
  - Larger corporations increasingly are growing into world-wide, or "non national" entities. Mergers and acquisitions involving companies with origins in different countries are contributing to this trend.
  - This transition from companies clearly based in one country to those spread globally is contributing to uncertainty.

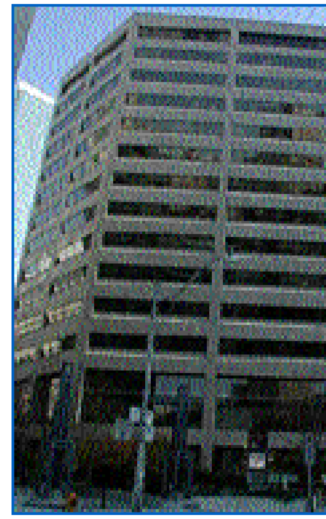
Photos: Courtesy of The Avison Young Group

111 Gordon Baker Rd.

  - Companies now frequently rely on different world cities' and regions' economic cluster specialties to deliver their products and services to their global customer base. Put another way they spread their production and consumption risks, as well as returns, globally.
- Declining faith in the stock market:

  The 2000-2001 dramatic declines in index value shattered faith in continued long-term stock market value appreciation. Continued headline news of corporate leaders' unsavoury actions is not helping to rebuild popular trust in stocks. Both factors are encouraging investors to look at more tangible investments like real estate.

  - Reduced dividends: Fewer companies regularly pay shareholders a dividend today than in the past (Microsoft, for example, released its first ever dividend only last year). This has pushed investors to rely more heavily on stock price for any capital gain, and these have been uncertain.



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Because of uncertainty in other investment arenas, real estate appears more stable both to lenders and to buyers. Just as investors often gravitate toward gold during uncertainty, they also appear to be looking at real estate in a similar way.

2. New policies generate more capital for real estate:

- Low interest rates: In response to economic uncertainty, government financial institutions have lowered interest rates in hopes this will fuel spending and support improved economic growth. Low interest rates have been a contributing factor to rising real estate prices as they keep mortgage rates low and limit returns in other investment options. Long term bond yields have remained low as part of the low-interest-rate climate.
- Loosened foreign real estate investment regulations: In many countries from Australia to Germany, governments have relaxed regulations governing various investment vehicles including REITS, open end funds, and pension funds. This is allowing many such groups to consider investments world-wide for the first time, increasing demand particularly in regions with higher capitalization rates such as North America.
- Rapid increase in amount of equity capital pursuing real estate: Equity capital available for investment real estate has increased dramatically, whether through funds raising equity on public markets, or pension funds and private investors reallocating cash. This heavy demand has made real estate a much more liquid asset, which correspondingly increases demand yet again.

3. Demographic shifts

The economic impact of dramatic demographic shifts in the developed world has generally been overlooked until recently. Aging baby boomers will soon stress national economies in North America and Europe by retiring from the workforce and contributing to a labour shortage, by earning less as retirees and reducing federal income tax revenues, by using more medical services (harder on countries with government-run medical

l estate investment market

plans), and by withdrawing from their pension plans and not depositing to them. This is starting now to generate uncertainty for investors and investment portfolio managers, as well as new requirements for them.

Meanwhile, a new cohort group – post-baby boomer generations – will soon be running corporations and the economy, bringing their own changes. Some effects of these demographic shifts can already be seen:

3 Bay — Bell Trinity Square

- Investment needs have shifted: Individual, institutional and corporate investors now have a greater need for steady, reliable investments albeit with lower return potential. Aging baby-boomers will be drawing on their pension funds in the near future making fund managers aware of the need for stable cash flow that real estate investments can provide.
- The new generation of investors is more favourably inclined toward real estate than stocks. Many members of Generations X & Y (born after 1965) directly experienced the risk and loss from the 2000-2001 stock market decline first hand early in their working lives. As a result, these generations are wary of the stock market. However, they have generally had positive experiences with real estate, seeing it as reliable (even if only through their parents' homes' dramatic increase in value in their lifetimes).
- Demographics in Europe versus North America: Fertility rates of non-immigrants in North America and Europe are approximately 1.5 children per woman – below the replacement rate of 2.1. Because a higher level of immigration is expected for North America than Europe, some investors perceive North American real estate as having less inherent risk from population decline. This will further increase interest from world investors in the North American markets.

Who Are The Buyers?

Listed at the right are just a few examples of the main buyers of Toronto real estate today. These investors' appetites stretch to several billions of dollars. Clearly there is only so much supply available, so they will face major challenges to satisfy their demand.

What Is Being Bought?

In the GTA in 2003 over $4 billion of office, retail, apartment and industrial product changed hands. In the first quarter of 2004 we have already reached half of last years sales; 2004 is therefore shaping up to be a banner year. Many properties are trading again within months, showing significant increases in value – a sure sign of a rising market.

Where Are Prices Going?

In the short term, prices will likely remain stable if interest rates remain stable. Interest rates have reached a 50-year low and this has had a positive effect for real estate investment. However, as we witnessed in 1981-1982 and 1989-91, as interest rates climbed, we experienced a serious correction in the real estate market.

A number of factors are combining to suggest that interest rates will rise within the next 12-18 months, possibly after the U.S. election. Should this happen, a correction will occur. The extent of the correction will be dependent to some measure on the severity of the increase in interest rates.

Needless to say, it is a good time to be selling real estate today – for how long remains to be seen.

Robin White is founding Partner and Executive Vice President of The Avison Young Group of Companies, a full service commercial real estate company with offices across Canada, and international representation through its strategic alliance with Grubb and Ellis Knight Frank Global.

Who Are The Buyers?

Pension Funds/Advisors

Caisse	HOOPP	OMERS	Lasalle
CPP	OPP	OPTRUST	Penreal
Morguard	Teachers/Cadillac		

Insurance Companies

Manulife	Sunlife	Desjardins	Standard Life

Real Estate Investment Trusts

H & R	Dundee	CREIT	Riocan
Borealis	Summit		

Public/Private Corporations

Davpart	Osmington	OPP Fund	Sutterhill
First Capital	Grosvenor	Brookfield/Brascon	

Foreign Investors

U.S.	Calpers	Deutsche Bank / N.Y.	
	Lehman Bros		
U.K.	Prudential		
Germany	Blue Capita	Bankhaus Wolbern	
	KGAL	Northam/MPC	
Israel	EL-AD	Skyline	Profimex

OLE bursary awarded

In March, OLE Council member Mike Real presented the Association's new student bursary to (left to right) Ewelina Szybinska, Melissa Deans, Sabrina Pannozzi, and Lana Wong. The four Seneca College students shared OLE's $500 award for their best-in-class waterfront revitalization project.

The bursary recognizes excellence in Seneca's Real Property Administration (Assessment and Appraisal) program. The course of study typically takes two years to complete, although an accelerated one-year program is available for those with qualifying existing credits.

Development charges escalating

Non-res to double in Ottawa?

The amalgamated City of Ottawa has proposed some substantial increases in non-residential development charges. The former City of Ottawa area would be affected most, as shown in the chart below.

Various industry groups have registered concerns.

"Growth should be encouraged by maintaining competitive development charges," says the Building Owners and Managers Association (BOMA) Ottawa. "Overall growth will result in increased tax revenues, based on the province's current commercial tax legislation, which would rapidly offset the reduced development charges."

It has challenged the basis for the development charge calculations, including:

- the City's "forecasted growth rates (which are) five to six times the rate of growth that Ottawa saw during the high tech boom of the 1990s"
- costing that doesn't reflect municipal exemptions from GST
- road costs "substantially higher than in other municipalities", and
- excess future capacity

Ottawa's Corporate Services and Economic Development Committee is scheduled to consider the DC issue July 6; the City vote is expected on July 14.

Proposed ICI charges

former City of Ottawa

	Current DC/sq ft	proposed DC	per cent increase
Retail	$4.42	$11.50	160%
Commercial/ institutional	$4.42	$8.50	92%
Industrial	$2.21	$4.25	92%

Source: BOMA Ottawa and IBI Group

Housing, retail soar in Toronto

On June 14, Toronto's Policy and Finance Committee recommended increases of more than100 per cent for residential development charges. Likely to have been accepted by Council by the time this journal is published, DCs for single and semi-detached units would rise to $9,075 from the current $4,370. DCs for two-plus-bedroom apartments increase to $5,886 (from $2,816); bachelor/one-bedroom units jump to $3,658 (from $1,802).

The proposed DCs are below the average combined regional and municipal charges in the GTA of $17,885 for singles/semis, and $10,565 for larger apartments. But Toronto's DCs for two-plus-bedroom units would be the GTA's highest municipal charge (no regional charges are levied in Toronto).

Industrial and commercial developments would still be exempt from DCs under the proposals, while retail would rise to $6.77 per square foot, again the highest municipal charge in the GTA, and well above the average combined charge of $5.48.

More declines ahead for GTA's rental condos

by Will Dunning, PLE

The rental condominium market is continuing to attract investment, despite evidence of a worsening oversupply and deteriorating investment returns.

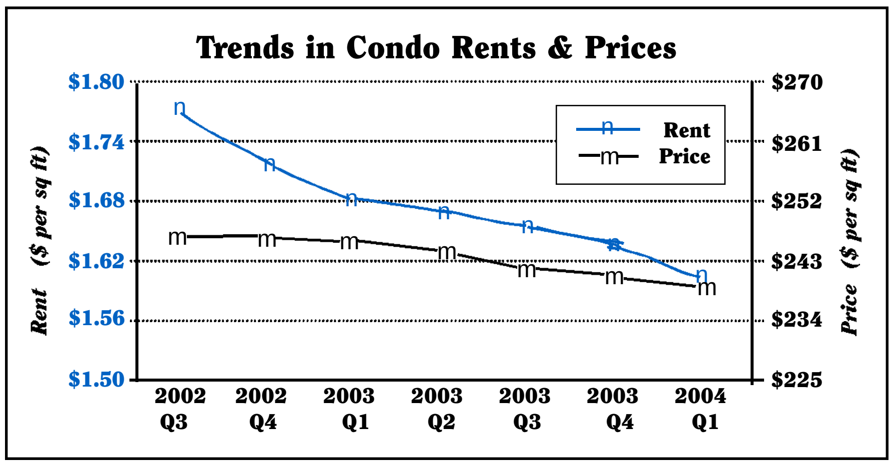
For a new subscription service (The Condo Investor) I have analyzed data for about 32,500 rental and sales transactions between July 2002 and March 2004, and produced rent and price indexes for about 125 buildings. Key findings are:

- During the analysis period of 1.75 years, the average rent fell by 9.8 per cent and the average price fell by 2.8 per cent.
- Rents fell for almost all of the buildings, and 10 out of the Toronto Real Estate Board's 16 market districts.
- The downward adjustment was most obvious in areas where investors have been known to be highly active, such as TREB districts C01 (west side of downtown) and C14 (east side of Yonge Street in North York).
- However, the over-supply is not limited to those areas. There has been a substantial amount of investment activity in some areas within suburban "905", including districts W19 (north-central Mississauga) and N03 (south Richmond Hill).
- Declines in rents began earliest in the core areas that first became active (C01 and C14). In recent months, their declines have been more gradual.
- Rents now have began to decline in the areas that were later to join the investment boom, including W19, N03, and E09 (Scarborough Town Centre).

Investors are continuing to buy from plans. During the past year, there have been about 13,700 sales of new condominium apartments in the GTA, well in excess of the 6,000 to 8,000 sales that are needed to satisfy demand from owner-occupiers.

This continued buying ensures that the investment market will be over-supplied well into 2006. It is highly likely that selling prices will fall by another 10-15 per cent during the next two years.

Will Dunning is president of Toronto-based economic research firm Will Dunning Inc



SOURCE: WILL DUNNING INC.

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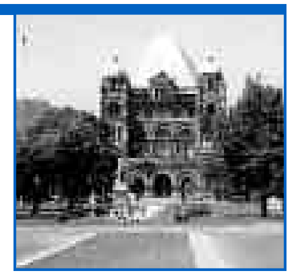
Cabinet colleagues of developing a 10-year strategic infrastructure investment plan. This coordinated approach between ministries and other orders of government is designed to minimize waste in infrastructure spending.

A Greenbelt Task Force discussion paper (May 2004) admits that more than 90 per cent of the greenbelt will be privately-held lands, so non-regulatory tools will be necessary to achieve the vision.

For example, greenbelt trust funds, stewardship councils and other non-government organizations will be required to help facilitate land acquisition and donations of land. Federal and provincial tax incentive programs will be an integral part of implementing a greenbelt.

Developer and builder associations have pointed out to the Province that implementation of a permanent greenbelt will have an impact on land costs and housing affordability in the GTA.

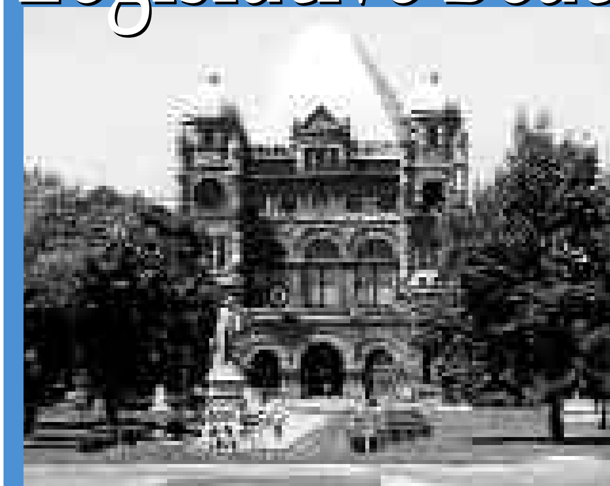
Critics of the OMB insist that when municipal decisions are overturned it has the effect of undermining the authority of elected councils. The Association of Municipalities of



Ontario has recommended that a hearing only be allowed when "the appellant could show that there was an error of fact or law…(or) bad faith so serious that council made a wrong decision as a result of it."

Andy Manahan is development promotion representative for the Universal Workers Union, Local 183, and vice president and legislative chair of the Association of Ontario Land Economists.

The Legislative Beat



by Andy Manahan PLE

Budget

Finance Minister Greg Sorbara had a difficult decision to make before he delivered the Ontario Liberal Budget on May 18. Should the Liberals keep the promises that were made during the election battle last year not to raise taxes (while maintaining a balanced budget) or should the government keep the promises to improve health care, education and a host of other priorities?

The Budget revealed that the latter course was chosen – health premiums ranging from $300 to $900 per person will be charged annually to help cover rising health care costs. These premiums will apply to individuals with an income over $20,000. This has generated controversy – as has the delisting of optometry, chiropractic and physiotherapy services.

Despite these measures Ontario's budget will not be balanced until 2007-2008. Sorbara stated that if the budget had been balanced this year, it would have destabilized "vital public services and perhaps even the economy itself."

A number of commitments concerning city-building, the environment and support for businesses are found in the budget:

- Beginning in Oct. 2004, the Province will dedicate one cent of the provincial gasoline tax to municipalities for public transit. This will be increased to 1.5 cents in Oct. 2005 and 2.0 cents in Oct. 2006. For the first year this will result in $78 million in gas tax revenue for Ontario cities. Combined with the expected federal gas taxes, the numbers should double.
- Over the next five years, more than $1 billion in transit expansion and renewal funding will be made available based on an agreement signed by Ottawa, Queen's Park and the City of Toronto.
- In a relatively unusual move, the Finance Minister specifically mentioned the possibility of a new subway line to York University. Environmental Assessment funding already has been earmarked for this extension.
- In conjunction with the federal government and Greater Toronto Area municipalities, the Province will be investing $1 billion to improve GO Transit.
- Legislation will be introduced to create a Greater Toronto Transportation Authority to coordinate transportation planning and investment in the GTA. This will allow for more seamless travel between jurisdictions by commuters.
- An Ontario Strategic Infrastructure Financing Authority will be established to provide pooled financing to meet municipal health, education, post-secondary and housing priorities. Infrastructure Renewal Bonds, structured to appeal to institutional as well as retail investors, will generate funds to provide low interest loans to municipalities, universities, schools and hospitals. As well, the federal government will be asked to participate in order to provide additional tax benefits to investors. This expands on the financing program that was introduced by the previous provincial government in 2002.
- Water and sewage system infrastructure will be given a boost as all of the recommendations in the Walkerton Report will be implemented. This year, $400 million will be spent to support source-to-tap drinking water initiatives.
- The Land Transfer Tax rebate program remains, so first time new home buyers are eligible for a rebate of up to $2,000.
- Capital Tax will be eliminated. Starting Jan. 1, 2005, the current $5 million deduction from taxable paid-up capital will be increased by $2.5 million each year until the deduction reaches $15 million on Jan. 1, 2008. Starting Jan. 1, 2009, the capital tax rates would be reduced each year until the capital tax is fully eliminated on Jan. 1, 2012.
- Capital Cost Allowance enhancements will be introduced to reflect the changes announced in the 2004 federal budget. This includes the CCA rate increase to 45 per cent for computer equipment (previously 30 per cent) and a rate increase to 30 per cent for data network infrastructure equipment acquired after March 22, 2004 (previously 20 per cent).

Planning Reform

The Hon. John Gerretsen, Minister of Municipal Affairs and Housing, has released three discussion papers:

(1) Planning Act Reform and Implementation Tools,

(2) Provincial Policy Statement, and

(3) Ontario Municipal Board Reform.

Combined with this, there are also provincial initiatives to bring forward a Growth Management Plan for the Golden Horseshoe, develop a Golden Horseshoe Greenbelt and implement Source Water Protection. The Province hopes to identify priority growth areas so that infrastructure investment can be optimized over a long-term planning horizon (30+ years).

The Hon. David Caplan, Minister of Public Infrastructure Renewal, has been given the responsibility along with his

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