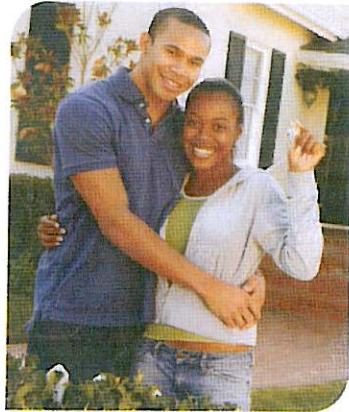


NEWHOMES

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INDUSTRY OUTLOOK



THE THEORY OF RELATIVITY IN THE NEW-HOME MARKETPLACE

by hugh heron

I may not be Einstein, but I've been a new-home builder for more than 40 years – and through experience, I've learned the "theory of relativity" when it comes to the economy and the new-home marketplace. I keep hearing about people doubting the future of the new-home industry, but I know as the economy improves, so will purchaser confidence and sales. The economic situation today is unique, as it is a worldwide problem, and I am not letting my optimism blind me to this fact. The answer, however, is that because the problem is so widespread, bright people will come up with a solution. They always do.

Over the decades, I've been through boom times, recessions and everything in between, and I've experienced first hand how resilient our Canadian new-home market is. The economy has its ups and downs, and during the down periods people sometimes overreact. They assume that if things are bad today, they will definitely be worse tomorrow. But there's a flaw in that logic, because time and again we've recovered and gone on to stable times again. Remember Y2K? Back in 1999, we were bombarded with headlines predicting certain doom when the new millennium arrived. Apparently, the end of the world as we knew it was temporary, because we survived it quite well.

If I believed everything economic "experts" and the media predicted about the new-home industry, I'd have thrown in the shovel years ago. In 1967 when I started building here in Canada, interest rates rose to over six per cent, and everyone said the new-home industry would fold. At the time, I was working for a company building 2,000-sq.-ft. homes on a golf course for \$20,000, and we were warned that our prices were beyond anyone's reach. We persevered, and all those homes sold to people who I'm sure made back their investment many times over.

How about all the economists who told us in the late 1980s that we'd never see single-digit interest rates again? It's remarkable that young people today are buying homes at similar interest rates to what their grandparents paid! And let's talk high-rise. In the late 1980s and 1990s, we were told that condo sales in Toronto were saturated, yet in the past two years we've experienced record-breaking sales of new condominiums in the GTA.

Like everyone else, builders have found creative ways to make the best of economic changes. When condominium prices became unattainable for first-time buyers, developers looked at how they could maximize every square foot in a suite and introduced more innovative, compact choices.

Low-rise home design has fluctuated with the times as well. Over the past decade, we've built fairly large homes on average. But with land and construction costs escalating, we will have to build more compact homes. Buyers have been open-minded about condominiums, and I believe they will accept this concept with low-rise as well.

Keeping a positive attitude and an open mind to the theory of relativity are critical to riding out the current economy. Relatively speaking, we have a fantastic life in Canada compared to people in the rest of the world – even the United States. Our stable economy and conservative banking practices will protect us from the serious crisis they are facing south of the border. And remember that in Canada, the cost of homes has risen at a steady rate rather than spiking the way it did in the United States. We are fortunate enough to have the Canada Mortgage and Housing Corporation, which provides mortgage loan insurance to banks for the difference when buyers put down less than 20 per cent of the purchase price.

The current slowdown in new-home sales here in Canada may seem more dramatic because the industry has been so strong for a decade. But this is still a cyclical business that will always have highs and lows. Remember the theory of relativity, and that real estate remains one of the best investments you can make.

Hugh Heron is Principal and Partner in the Heron Group of Companies and President of Heathwood Homes, as well as a past Member of the Board of Directors of Canada Mortgage and Housing Corporation, and a Past President of the Toronto Home Builders' Association and the Ontario Home Builders' Association.

