



MAXIM BAGINSKIY

REAL ESTATE

BROKER/INVESTMENT ADVISOR

EMAIL: mbaginskiy@gmail.com

PHONE: (416) 832-8343,

FAX: (416) 981-7710

WWW.REMLIS.CA

Right at Home Realty Brokerage Inc., 905-695-7888

Maxim, the Toronto real estate market is buzzing with rumours about the “bursting of the soap bubble.” In April and May of this year, many people encountered problems when selling their home that were not observed for many years. What is your opinion on this matter?

I think it would make sense to begin by discussing the events at the beginning of this year. Understanding them will subsequently enable us to understand the current situation. In February and March of this year, the real estate market experienced a consecutive rise in prices and there were not many homes up for sale while the prices continued to grow. Traditionally, the beginning of April sees the emergence of new projects to the market and this year was no exception except that this real estate was priced even higher than that on sale in March. The number of houses that went for sale in April was so vast that it overcame the amount of customers willing to purchase homes for those prices.

THE REAL ESTATE MARKET

An Interview with Maxim Baginskiy

Keep in mind that the rules for obtaining a mortgage became more difficult in the fall which forced many people to move towards condo apartments. The situation was made worse by the fact that it was very difficult to buy real estate over the past few years yet it was easy to sell due to the unbalance in supply and demand. Accordingly, people first bought new real estate prior to selling.

Currently, many people got trapped in an unpleasant situation: bought a new home and to seal the deal they need to sell the current one but since it is hard to do, they are forced to significantly drop the price in order to sell it in time. This is exactly what pushes the market down. Following is the “snowball effect” – potential customers see the drop in prices and take on an “idling” state. Correspondingly, there are very few customers willing to buy a house right now.

Moreover, the introduction of new measures by the government in an attempt to cool down the real estate market initiated some panic. In my opinion, the effectiveness of these measures is questionable;

there is no doubt that they insinuated panic on the customers. All of the aforementioned events lead to overpriced regions such as Richmond Hill or Vaughan to experience a price sag of approximately 15%. In further regions where prices are more adequate, a drop is not observed but there are also few sales.

Do you think that the current situation can lead to the collapse of prices on the market? If so, what kind of drop do you expect?

First of all, let’s not generalize to the whole real estate market. The condo real estate market is radically different. Everything is sold out instantaneously, the growth of prices does not slow down and the newly introduced regulations did not affect the hype we witnessed over the past eight months. Regarding houses and townhouses, the situation is likely to normalize in the fall of this year. In the next few months, houses will be sold with a large discount in three types of situations: those who bought new real estate and cannot sell their house, those who engage in flipping and cannot close the deal without selling their house



and finally those who immediately sell their real estate in fear of a collapse.

Other sellers will temporarily leave the market until the panic ends and the situation normalizes. The amount of homes that are available for sale will soon fall which will balance demand and supply. In this segment of the market, we will unlikely see a rise in prices in the next few years, in contrast to what we saw in the past five years. However, I do not expect a global drop in prices. In my opinion, the market of houses and townhouses is entering a period of prolonged stagnation, especially in overpriced regions. Further regions will likely show an insignificant increase in prices in the annual equivalent.

You mentioned that you are skeptical about the measures introduced in April in an attempt to cool the market. Why?

I think that all 16 points introduced by the government do not have a goal of solving the problem of lack of living space but rather to collect as much money as possible with the help of taxes. This strategy was frequently used in other countries and brought only short-term results; the long-term effect was in fact negative.

In your opinion, what needs to be done in order to have a stable and healthy real estate market?

There are only two ways that recommend themselves as effective in such situations:

- 1) Increase mortgage rates
- 2) Significant increase in the volume of construction

If the first option is simply impossible in Canada – since the country's economy is far from the best state and raising mortgage rates in this situation is "suicide" – then the second option is exactly what we need. One of the points introduced by the government implies faster rates of construction, but unfortunately, this is only in theory. In reality,

we see absurd terms of approval. Further, large territories remain closed for construction projects, which does not offer any interest from the point of view of ecology, and yet fall under the Conservation authority.

In my opinion, this is all related to the fact that the government does not want to spend their budget on constructing new roads and communications in undeveloped areas. Unfortunately, the government has its own opinion of what to spend money on. Exactly for this reason we will soon regularly encounter multi-kilometer traffic jams where people will be stuck for hours. It is impossible to change anything at this point – this had to be thought about five to seven years ago. There is only one solution: remove bureaucratic obstacles and dramatically increase the volume of construction. Supply and demand will balance each other out.

You mentioned that the situation is completely different with condominiums. Why do the prices continue to grow in the segment of condo units and what can we expect in the future?

Over the past year, the demand for condo apartments grew several times; this is why we saw the prices increase by over 30% in this segment. This growth balanced the weak 3-6% price increase over the past years. Thus, condos – unlike detached houses – only made up for what they missed over the past years. The amount of projects entering the market is decreasing while the demand continues to grow. The condo crisis of 2011-2013 played a major role here. Over these years, developers had a very difficult time with sales and consequently, could not begin new projects. As a result, there were very few new projects. Currently, the period of when the projects are coordinated and released to the market is coming to a close and there are definitely not enough projects. For this

reason, the government program directed towards cooling the market did not work here. For every 300-500 apartments that enter the market, there are several thousand customers. Developers are obviously taking advantage of this situation and the prices in downtown already surpassed \$1000 per square foot. The emergence of new projects is expected by the end of this year as well as next year which should help balance the demand and offers in the so-called pre-construction condos segment. Only after two or three years – by the time these projects will be complete – will the secondary market stabilize.

Maxim, your primary occupation is investments; what would you recommend to investors in this current situation?

All of the investments strategies I use are based on the market experiencing a rise in prices of 6% annually, which is the average percent of price growth in Canada over the past 40 years. The right use of these strategies brings investors sufficient profit with absolutely no risk. Unfortunately, those involved in banal speculation and flips lose in the current situation. Having entered the euphoria created over the past several years on the house market that experienced a price increase of 20-30%, these pseudo-investors will not be able to withhold real estate that was at its time bought with 100% financing and will be forced to sell at a loss. For those who have the opportunity, I would recommend to give the real estate for rent and wait until the situation normalizes. For those who have been following my advice properly should not worry as their situation is absolutely stable. Furthermore, those who refinanced their home and have extra money for investments will make a sufficient profit.

The interview was conducted by Olga Makeeva.

