

June 7-16

Good Afternoon to All

This is the first of our client “Education Presentations” and I thought it was appropriate to start with the biggest asset for most Canadians—their homes.

These education presentations will have brief introduction notes and then a list of select articles in the PDF attachment.

My comments will be brief and in point form. I hope to do one of these per month going forward and will cover such topics as the TFSA’s, RESP’s, Taxes, Insurance, IPP’s, Dividends etc.—this is all stuff that clients need to know about in ADDITION to their stock-bond investments.

REAL ESTATE GENERAL COMMENTS:

-this will be 99% Canadian focused and mostly residential-condo stuff

-for the last 2-3 years many have sounded alarms about the “Canadian real estate bubble” and they are CORRECT—we have a BUBBLE in Vancouver and Toronto by all fundamental accounts—see the enclosed articles

-the problem is we do not know when this will pop and whether it will be a 10-20% decline, OR a +30% decline such as we saw in Toronto back in the early 1990’s?

- because of this decades long booming Canadian real estate market (esp. in BC and Ont) –real estate and its important spin offs (eg. construction jobs, furniture jobs, sales jobs , carpet laying jobs etc.) now account for 20% of the Canadian economy!!! That is huge!!

-consequently this is something that the government does not want to pop...it would be very voter and job unfriendly...hence the bubble continues

-Kelowna is now the fastest growing city in Canada because of rich home owners in Vancouver selling high (at \$2-3 mill) and buying low (at \$500-700) in the Okanagan...this is a “positive spin off” from the Vancouver bubble—I am sure they are seeing the same in smaller Ont towns that are more affordable, but it is also the “displaced” millennials who cannot afford these bubble prices that are moving to Kelowna and this has negative and positive implications

-What is driving the Canadian Housing market bubble (mostly Toronto and Vancouver):

1. Low interest rates...here for a while longer
2. Millionaire migrants—mostly from China—does this stop soon and then what happens??

3. A cheap loonie—great for Chinese as their yuan is tied to the US dollar so last year had 25-30% discounts in Canadian dollars

4. Political and bank stability is very attractive

So how long does this last?? And what pops the bubble??

-Finally—the recommended top price you pay for your home is about 3x your gross annual income or the annual carry cost should be only 32% of your pre-tax household income (and covers mortgage +utilities + property tax) ---so most doctors and dentists are well within this range I find, and these are the folks that retire early in my opinion—those that go big often don't do well says "The Millionaire Next Store"

Terry

PS—I think real estate is now very expensive in many cities across Canada (see enclosed articles) and if interest rates ever normalize many families would be in trouble (or if migrant owners decide to sell en masse) as then you are stuck with this large mortgage for 20-25 years, and more insulting is the risk that the value of your home could drop as you are buying high here...just my personal thoughts here but over the last 25 years I have bought and sold many properties so I have some personal insight into real estate cycles...

ATTACHMENT Reads:

#1 RBC Housing health check

#2 Millennials flock to outskirts

#3 Prem Watsa on housing (Veritas has the same view)

#4 Toronto's condo bubble

#5 MacLean's article on real estate frenzy

#6 some repeat stuff

#7 Department stores in trouble...good read

#8 for the ski chalet owners—my take is be careful.....