

STABILITY IN NEW HOUSING



Geranium's flagship master-planned community — Cardinal Point.

In my first Industry Insider column of 2013, I'd like to comment on a myth that is frequently reported in the media, which speculates that the GTA's low-rise housing market will see a downward correction in the price of new homes. I completely disagree with those who predict this, and as someone who is well acquainted with the business, I offer the following reasons.

Our company — Geranium Corporation — is an integrated land development and residential building company. As such, while we do purchase serviced lots for our housing division — Geranium Homes, our mandate is to purchase raw land for which we have the in-house capability to design and overlay a community master-plan, as well as obtain the approvals required to service the land and ultimately build our homes. We buy land (on average) six to 10 years before it is ready to hand over to our housing division. The secret to longevity in the development business, is to have the provision in your financial planning to allow for accurate forecasting should there be

increases such as higher development charges assessed by the local government, or if the cost rises for servicing the land. Land planning takes a long time and has to be properly funded. There are many variables that impact the end price of a serviced lot. In 2013, the price of serviced land is the benchmark by which all other land values are assessed.

Ontario's Places to Grow legislation, which requires the preservation of lands for greenbelt and the intensification of certain key neighbourhoods, has restricted the availability of land that can be developed for housing in the Greater Toronto Area. With less supply, the value of developable land has increased, which, in-turn, impacts the price of housing. Downward pressure on house prices is usually the result of an oversupply of serviced land. This has not been the case in the GTA for many years. Therefore, there's very little downward pressure on the price of serviced lots, which accounts for a large portion of the end price of a home.

Geranium Homes is like any other builder. We buy lots at a cost per front foot, which is accounted for when we price the homes for sale. A production builder like us typically owns a quantity of lots in a neighbourhood. This allows the builder to control the pace at which lots are released for sale. In large projects, the site is often divided into phases according to how best to build the homes. Phasing not only helps a builder to determine realistic construction goals, but it also allows for price adjustments and the modification of house designs according to market acceptance. Generally, the first phase of a new community will offer the lowest price that will be available. As sales climb, so do prices impacted by factors such as the demand, the cost of building materials and labour, in addition to possible new building code requirements.

Throughout 2012, Geranium opened new neighbourhoods and experienced strong sales. The price of a home in any of our communities is higher today than it was one year ago. I expect the same is true for the majority of new low-rise homes. If you are looking forward to purchasing a new home for your family and living there for a number of years, I would encourage you to stick to your plan. There are many excellent choices throughout the GTA, and, if I am correct, it will not be to your advantage to wait for prices to come down. ■

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