THE EMPOWERED INVESTOR

TULETT, MATTHEWS & ASSOCIATES

Wealth & Real Estate: Part 1 – Expanding Family & Buying Larger Homes

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With his straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Keith: Welcome to the Empowered Investor. My name is Keith Matthews, and I'm joined by my co-host Marcelo Taboada. Marcelo, welcome today.

Marcelo: Keith, how are you? I'm super excited for what we have in store. We have a three-episode series on real estate. Everybody wants to talk about what's going on in the real estate market. People want to know how to buy, how to sell, where the market's going, what the government should do, what real estate agents should do, what people should do as buyers, and what people should do as sellers. So I'm super excited. I think everybody will appreciate this real estate series.

Keith: Marcelo, I totally agree with you. So why are we talking about real estate on the Empowered Investor? It's an investment show.

Marcelo: Absolutely, and it's a great question. But I think if you've been listening to the show for a while, you know that we do a very holistic approach to managing money and managing people's finances. Real estate, houses, cottages, second properties are a huge part of people's portfolios. Whether that generates income or you just live in a primary residence, it's huge for people. It's a big part of the puzzle. And I think a lot of Canadians now, this subject is a generational topic. It is capturing the zeitgeist. Everybody wants to talk about it, and it is a huge part of people's finances.

Keith: A hundred percent agreed. So what we've decided to do is create three shows, three episodes. The first episode is geared around the subject matter of buying bigger homes, growing a family, and looking for more space. It could be a first-time homeowner or a more mature individual with a growing family.

Episode one. Episode two is the next stage, which is downsizing. So you've now raised your family. You've got a larger home. Everybody's left though. So downsizing can start as early as 55, 60 and can also occur in a more senior market. So that's show number two. Both of those shows are going to focus on suburban real estate. Show number three is going to focus on urban real estate. What's going on in the condo market? What's going on in luxury condos? Residential luxury. Residential. Everything going on in the downtown cores of Canadian cities. We have three unique guests for each show. Marcelo, who do we have for today's episode?

Marcelo: So today we have Scott Brody and Sean Brody from the Brody Winter Group. And Keith, I'm excited. Sean and Scott are super interesting people. Scott has a more unconventional background coming into the real estate market. Sean is a veteran. But I'm a huge fan of how they're doing things online, how they're bringing people through transactions. It's really different and really cool what they're doing. So it's hard to find a better guest for today's show.

Keith: In addition to the social media presence, they've also started something that's a little unique called their advisory club. And that's designed not for an individual looking to buy or sell a property, but more for an individual looking to maintain a property, maintain the asset. And so they're exploring this idea of being able to offer ongoing real estate advice for individuals who are current owners. And so that's a bit unique. So with that, we're going to move into our show and have a great episode. Can't wait. Welcome Sean and Scott Brody to the Empowered Investor Podcast.

Sean: Thank you, Keith.

Scott: Thank you very much, Keith. It's always a pleasure to be with you.

Keith: Great to hang out with you. Great to be here. Looking forward to this. This is a very exciting series on real estate, and this is our very first one. So part one today we're going to be discussing families that need to buy larger homes, buying bigger homes, moving up in the real estate market. So guys, what does that group of buyers typically look like? Let's start painting a picture of the profiles here. What are we talking about?

Scott: I think, Keith, we've got really two subsets in that group of people that are looking for more space, looking to upsize. We've got our first-time buyers.

Generally, in today's market, that tends to be your millennial generation who are now starting to have children and start families and looking to upsize, get more space. And then you've got families that possibly have one or two or three kids that are a little bit older and are a little bit further advanced in their careers and are looking to go from maybe a starter home or a smaller three-bedroom home to something a little bit bigger and usually wanting to upsize to a more executive-sized home. We call it a four-bedroom, maybe a two-car garage, a little bit more land. So that tends to be the two sort of groups we're seeing on the upsizing front.

Keith: Excellent. Yeah, this is going to be a huge contrast between our next show, which will be speaking to the empty nesters and seniors. So today's show is really focusing on those looking for the larger homes. Let me ask you guys a question. How many homes does the average family typically buy in their lifetime as they start going up? Is it one home? Is it three homes? What's your sense?

Scott: That number has trended upward over the last 20 years. People tended to buy homes and stay in them much longer than they do these days. Your typical homeowner today stays in a home on average about five years.

Keith: Wow! Holy smokes. I've been in my home for 21 years now. And I think I'm going to be the individual who maybe has two homes and then maybe becomes the empty nester. So that means like four or five homes that an average person may have throughout their lifetime prior to empty nesting.

Sean: That's right. It's definitely a generational thing because our parents' generation typically would stay in the home for 25-30 years. And we're seeing that the downsizers have been in their homes for many years. Whereas in the mid-range market, you're seeing people move up, as Sean said, every five to seven years.

Keith: And maybe that has to do also with the rising prices because rising prices can camouflage some of that transactional costs that occur when you do make those moves. Let's go back a little bit into last year. We're one year into the pandemic. Pandemic started last February-March. Here we are in the beginning of April. Go back in time. What did the real estate market look like at the onset of lockdowns and pandemics?

Scott: We were poised for a very busy year. 2019, the market started to trend a lot more active. We started to see a lot more sales activity across the country. We were poised for a very busy spring market. Last year, we were preparing homes with clients for sale. We were getting ready with buyers. And then all of a sudden, the pandemic hit, and here in Quebec, we were completely shut down for eight weeks.

Keith: So what was going on in the market? Were homes being shown? Was it an open market, or was it a shut market?

Sean: It was completely shut down. You couldn't show homes at all. And when the ban was lifted, you had to adapt to a whole new reality. No more open houses. You had many more restrictions in terms of protocols from the government in terms of how many people could be in the home at a given time. So you had to adapt to a new reality of how you were going to market and show homes.

Keith: And of course, today, most of this show is going to be speaking about how crazy the real estate market is right now today, how prices are elevated. We're going to speak about bidding. We're going to talk about all sorts of different things. But going back in time for you guys as agents and as professionals, how did you feel about the market? How did you guys personally feel about what was going on?

Scott: I know from my perspective, it was a scary time. It was a real unknown. We had no idea the seriousness of the virus, how long it was going to last. They shut the market down. So we're looking at each other saying, okay, we're essentially out of work now. We can't sell real estate. It was scary. It was a really difficult period for a few weeks. And it was the same with my colleagues that I discussed this with across Canada. It was a real freak-out period.

Keith: It's amazing you say freak-out because, on the flip side, you had banks coming out and easing their mortgage restrictions to homeowners because the world was fearing a depression. How quickly we forget this in the investment business. We've gone from that sort of stock market correction. And at the end of last year, you've got speculation everywhere. So people are forgetting that only 12 months ago, we were stuck in this hole that looked pretty deep. So thank you for sharing how that felt for you guys. Let's fast forward to today. In the last six months, let's review some market stats in terms of general real estate conditions in Canada right now. So guys, what's the average price of a home in Canada?

Scott: The average price of a home in Canada is now $678,000, Keith. That's up 25% in Canada. Year over year, that's February of 2021 versus February of 2020, when the average price was $570,000.

Keith: Holy smokes. And it's, we're going to talk about this today. Traditionally, we've always really thought about big price increases coming in major cities, mostly Toronto, Vancouver. Montreal is playing a bit of catch-up, but are these price increases just in these cities, or are they in all outside smaller cities? What about cottage country? We'll talk.

Scott: All over the place, Keith. Probably the biggest surprising change, and that's obviously been driven quite a bit by this pandemic, has been the small towns, the outlying areas, cottage country. Recreational property prices have gone up 16% year over year. Now, the trend with baby boomers moving and buying recreational properties began in the last decade, but with COVID and travel restrictions and, of course, a trend towards remote work, this trend has accelerated dramatically. So we've seen some of these cottage country markets. I know here, where we are in Quebec, the agents in Tremblant just can't even keep up. They've got lists and lists of buyers, not enough listings, not enough homes for them. And it's the same in Ontario. We're hearing the same thing. Cottage country up in Muskoka and these types of areas are just absolutely on fire. And then if you look here at the major cities, same thing, probably led by Ontario, Ottawa, Toronto, Oakville, Milton. Prices are up 25%. Here in Montreal, 19% year over year. These are the aggregate of condos and single families. And if you break that down even further and just look at the single-family market, which is the major uptick we've seen in, people wanting single-family homes, wanting more space, wanting more land, wanting to use their backyard more, having gone through what we did with the pandemic, the single-family market's just exploded.

Sean: And it's not just limited to the island of Montreal. We're seeing huge increases off the island too. Traditional sleepy Hudson and St. Lazare. Hudson was up 30% year over year.

Keith: You're speaking about this complete, not a complete, but maybe a bit of an exodus, maybe away from major urban cities to just more space. People looking for more land and more home. What about inventory? I know that's a big thing in the real estate industry, and you gauge a healthy market by having a certain amount of inventory for sale. What is the inventory situation across the country right now?

Scott: Great question, Keith. Right now, we're sitting at the end of February of 2021. We were sitting at 1.8 months of inventory on a national basis. A typical balanced market has between four and six months of inventory. And we had been trending at a little over five months of inventory for a number of years. So at 1.8 months of inventory, and when we talk about months of inventory, what that means is should the pace of buying continue and no other homes were to hit the market, all of the inventory would be completely exhausted. IE those homes would all be sold in 1.8 months. And that's nationally. We've got certain areas in Ontario where there are literally just weeks of inventory. So the inventory level is critically low right now. And this, of course, with the supply and demand equation, is driving up prices and making things very difficult for people that are looking to buy a home this year in Canada.

Keith: I guess it leads me to this question, which I think seems somewhat obvious: Is the real estate market balanced right now?

Scott: Not at all. If we look back, and as I was saying, four to five months of inventory would be balanced. We're at 1.8 and well below that. And most of Ontario is at weeks of inventory. So yeah, far from a balanced market.

Keith: Okay. When we talk about a balanced market, this leads us to a bit of the sort of economics, and that's the question of demand and supply. And so we're going to speak a little bit about the demand side of real estate and then a little bit about the supply side. So demand is out of control in terms of people looking to buy bigger, more money to buy, more desire to own, and then the supply side is shrinking. So you end up with incredible demand plus limited supply economics equals incredible price pressure and a crazy erratic market, which essentially is what I think you guys are going to say we're in right now. What are some of the trends on the demand side that you're seeing? So when home buyers, not just the new ones, but ones that are looking to get into the bigger homes, what do you hear them say right now? What do they want?

Sean: I think one of the things you touched on earlier was since the pandemic hit and people are getting used to remote work and they're finding that the space they've got, if they're working from home, is now limited. So they're looking for that extra space for home offices. The gyms are now closed. So they're looking for space for home gyms. Pools are in huge demand now. People want that space to be able to hang out outside with the family. So those are the features that are in really high demand these days.

Keith: That's amazing. Do you remember the time, guys, like 20 years ago, people used to fill in their pools because there was no demand for pools?

Scott: Especially here, when we have such a short summer. But yeah, the vacation-style backyard, the dream backyard has become high on the priority list with our restrictions on travel, that's for sure.

Keith: What other kinds of demand issues are you seeing? Are you seeing people willing to spend more of their personal cash flow? How does that look when you speak to buyers?

Sean: I think people are spending a lot less than they were pre-pandemic as well. And you couple that with low interest rates and people have more disposable income to spend on a property. And we're seeing that as well in the renovation market. People are investing in their homes a lot more.

Keith: It absolutely affects prices. Guys, I've been doing some research. I spent about three weeks doing research for these shows, and I was always sitting back, and as a financial advisor, you're puzzled with some of these price movements. But I did an exercise last week. I'm going to run through some numbers here. I assumed the average price of a home about a year ago was $500,000 in Canada. I then assumed a buyer would maybe put 20% down and be left with a $400,000 mortgage. I then said, okay, what will the pandemic financially have created here in terms of additional capacity to push prices? Just the interest rate move from a 2.9% five-year interest rate to a 1.5% provided an additional $70,000 worth of mortgage capability. Add to that this new world that we're living in, which is people being cooped up and locked in their homes. I took a simple calculation of what kind of money is the average home saving in gasoline just to go back and forth to work? And then what kind of money are they saving for lunch? Buying two lunches a week. Forget about adding in the clothing, the dinners, the restaurants, the sporting activities, the theater, the culture, the travel, the vacation. Just gasoline and food added an additional $60,000 of mortgage capability. So you take the interest rate of $70,000 and the gas and the lunch at $60,000, you're up about $130,000 of capability from a cash flow perspective. That $130,000 divided by $500,000 is 25%. Bingo. There you go. That's been the market increase.

Scott: Interesting.

Keith: It's shocking. It's amazing. And then so you must see people having different value propositions. Now people are using their wallet to say, what do I value? So what are some of these changes that we're seeing that are driving some of these markets? What do people value when they look at these homes now?

Scott: Just as Sean touched on, I think the home office, we're seeing people wanting to have that. Traditionally, quite a few homes in past years would have an extra bedroom in the basement, for example, that someone would repurpose into a part-time home office, sometimes a full-time home office. But I'm starting to see buyers asking for a main floor space for a home office. Basement area for a gym, as Sean mentioned, and more just general living area for everybody. If people have been, as you said, Keith, cooped up in their home and they've got two or three kids that are being homeschooled, we're not going to restaurants anymore. So people are looking for a little bit nicer area to cook in, a little bit more of a functional kitchen. People want a little more space for the kids to play and to get away from each other. So the higher-end luxury market, we're seeing a demand for more bathrooms. So less bathroom sharing, all these kinds of things. Just a real trend towards wanting to make the home space more comfortable. And that translates into more space in the house and a little bit more space outside as well, which I think has driven some of the demand off the island and out to more rural areas because the size of the properties tends to be much larger.

Sean: And I think that these things that Sean mentioned, move-up families were looking for these things always, even pre-pandemic. I'm a perfect example where I was in my starter home, bungalow, with two daughters who were becoming teenagers with only one bathroom in the house.

Keith: That's trouble.

Sean: Yeah, that was real trouble. So that was exactly, I was in that position where, okay, this is just not sustainable anymore. One bathroom and three bedrooms with no garage. So looking for that en-suite bathroom where you, as Sean said, peace and quiet just to go to the can is something that's huge, and having that garage. That's one feature that I would never trade back ever again. So these are things that were traditional features that move-up families would be looking for.

Keith: And I look at just the way people are working in homes now, and you've got people working on kitchen tables trying to run corporate meetings. You have people working in a living room trying to run a sales meeting. And so you can see this, if you've got two kids or three kids in a home, you've got this need for multiple bedrooms and now multiple offices. One of the questions I have is it speaks to buying behaviors. So people have stopped doing certain activities. So they've got more cash flow, interest rates are low. Let's fast forward two or three years from now. And so I can see why the prices have moved the way they've moved. Let's fast forward two or three years from now. We're out of the pandemic. Interest rates may creep up slowly, so that will definitely have an impact. And then all of a sudden, people wake up and go, I want to do all these life experiences again. I want to be more active. Obviously, I'm not suggesting that we have a crystal ball, nor do you, but do you think that could have a bit of an impact on homes in two or three years from now when people pull back and say, I really want to go for dinner now more often than I was during the pandemic?

Scott: Of course, I think so. Absolutely. I think people are being reactive, given our current situation with the pandemic and the lockdowns. And I think that is going to ease off in a couple of years. I think we're going to start to see seniors and people who were very nervous about having people come through their home during a pandemic start to ease up a little bit, feel a little bit more relaxed, be safe to themselves. Okay, you know what? I'm ready now to put the house on the market. I'm able to go back to Florida for the winter. So now my goal was looking forward to downsize from the big family home, get a condo or a condo townhouse or something where I can turn the key and go to Florida for the winter and not worry about it. I think that's going to come back. I think we're in a situation right now where people don't want to give up the space in the backyard because of the situation we're in, but that's going to change. I think people will start to return back to cities. I think the condo market will rebound as well. So I definitely see that this is a period in history that's very unique. And I think it'll be like a bump in the road and we will start to go back to normalcy.

Keith: It's interesting because you can see how behaviors have been shaped because of the pandemic. And there's no market that has been affected more than the real estate market. And so as we unwind out of the pandemic in the next few years, there might also be some impacts on real estate. Fascinating topic. Okay, guys, we've just covered off the demand side of real estate. Now let's talk about the supply side. And you guys both work in an affluent area west of Montreal. Supply side being we have a reduced number of homes that are available for sale. What is driving that in the market right now?

Scott: I think in speaking to our client base and our colleagues and our neighbors, we have a lot of baby boomer generation. So older folks who generally the trend would be to downsize at this stage in their lives, and they're deciding to stay put. They're not too keen on going into a retirement home, going into a condo. So they're holding onto a lot of that inventory that normally would be freed up for young families. Aside from that, we're seeing a lot of folks who are in, let's say, a larger family-sized home. Rather than doing what they previously might have done, which would be sell the house and upsize or find something more renovated, because that's another trend. People are looking for more renovated features in their homes, updated homes. We're in an area where most of the properties were built in the sixties and seventies. They're staying put and renovating. When you talked about that extra capital or that extra borrowing power being freed up, Keith, a lot of people are deciding to refinance at 1.5%, pull a little bit of that equity out of their home. If they're in their forties or fifties, they've got equity built up, and therefore they're renovating. And we're seeing a huge supply and demand equation on the renovation side as well. You can't get contractors. Price of materials, two-by-fours are double the price they were a year ago. So we're seeing people stay in their homes rather than selling them and renovate. So that's creating another sort of vicious cycle where we're seeing less inventory from those that would be moving up, as well as seniors who don't want to downsize.

Sean: So it's really a choice that they're making too. Do I go into the fray as a buyer and try and find another home where the prospects are very slim? Or do I go through the pain and headaches of renovating? And as Scott said, all the challenges that go along with that, the lack of contractors' availability, the price of materials. So there's a challenge on both sides of the equation.

Keith: Yeah, for sure. And I don't know what the answer is. I can tell you guys this. When we ask all our clients what their objectives are, what they'd like to do in the next five or 10 years, quite a few clients who are in their seventies will say things like, I plan on now living in my home forever. And I never heard that as an objective before. That was never a wish of theirs. Now, obviously, it's an emotional, and it might be founded, but it's driven a lot by pandemic. It's driven a lot by the desire to stay independent and be in their physical safe property. But that is going to affect the market because there's no opening up of the empty nesters or the seniors. And I'm assuming that you're seeing this all over throughout the market.

Scott: Oh yeah, this trend is nationwide, North America-wide. Seniors staying put, and that inventory usually is something that the young families are looking to upsize into.

Keith: If we speak about why we're in this crazy real estate environment, you've got wicked demand, and then you've got constrained supply, and you end up with almost like an intersection, a collision at a home sale. When you're looking at homes that are being sold right now, we are all hearing about multiple offers. Tell us a little bit about that. What's the most offers you've ever heard of coming in on a home transaction in your area right now?

Scott: We had one, Megan on our team was involved in one with a buyer yesterday for a home in the entry-level price range, a detached home, and there were 22 offers on the property. And that's quite common in the under $600,000 price range. I would say between $600,000 and $1.2 million, we're regularly seeing anywhere from five to 15 offers on a home at one time. It's incredible. We've never seen this in Montreal.

Sean: I had one just yesterday where the home was priced at $1.3 million, and there were six offers at $1.3 million.

Keith: That is incredible. For anybody who's been around the market long enough, you guys have, I know I've been a homeowner for a long time. That's just unbelievable to think about.

Scott: It's something we used to look at and joke about what they were going through in Vancouver and Toronto, and now it's happening all across Canada.

Keith: I take it in some regards it makes selling a home easy, but in other regards, it's got to be incredibly stressful.

Scott: Oh, it's very stressful, especially if you've got to sell your house and buy another one.

Sean: And it's also very difficult for buyers to try and figure out what they should be bidding on a home because you've got prices that are going $50,000 to $100,000 over asking. You're really at a loss to see what are the comparables are thrown out the window when you look at a home that sold just a couple of months ago. And now those benchmarks are being reset almost on a weekly basis now.

Keith: Yeah, we're going to talk about that. I got a few questions for you in terms of blind bidding and open bidding in about five minutes from now. But I'd love to hear for the listeners your top suggestions and your top recommendations as to what buyers and sellers should be doing in these very challenging times in real estate.

Scott: Well, Keith, I think the number one piece of advice we could go back to, which I think is common in almost anything we do, is to take your time, do your research, and be prepared. We see too many people taking a reactive approach, an emotional approach. We've touched on that already today. And jumping into going out to look at homes before they've met with a real estate professional, mapped out how that process should take place. Rushing into something as big as a home purchase is a recipe for disaster and a recipe for making critical mistakes. So I think my first piece of advice would be, well prepared and meet with a professional early in the process.

Keith: That's a great recommendation. That's a fantastic one. Yeah, go ahead, Sean.

Sean: I was going to add to that point, which is especially in a market like this, you do need to be able to make quick decisions. This market is not for the faint of heart who are not quick to be able to make a decision, which is even more reason why you need to be well prepared and understand what the process is going to look like so that when the time does come and you find that home that you want to make an offer on, you can act quickly because that's very important.

Keith: Awesome. That's excellent. I had a client talking about somebody they knew. Somebody had knocked on their door and offered them a price that they thought was amazing. And they sold it in a private offer like that. And I think in hindsight, the person realized only after the fact they should have worked with a professional, listed the home properly. And in today's market, obviously, there would have been a bidding war for that property.

Scott: Oh, absolutely.

Keith: They would have received a higher offer than what they had done. All right. Let's switch gears, guys. And in the newspapers, there's a lot of discussion around housing crisis, home crisis. And I guess there's many different ways to look at this. If you're a homeowner and you feel like this is your nest egg and you see your nest egg appreciate dramatically, you may not feel like this is a crisis. And so you may feel great about what's going on right now. If you are, on the flip side, a buyer, or if you're looking for the next generation, the younger generation to become buyers, you may then say things are not as affordable and we have an affordability crisis. Banks are always concerned about real estate because they lend to this asset. So they don't in any way want to see this asset under pressure. So this is where you see this dialogue and this narrative around crisis. So let me ask you guys a couple of questions. And you can't get two economists in a room to agree on any policy. So let's talk about a few policy issues right now. Blind bidding. Let's start with that one. So does either one of you want to give it a shot in terms of really explaining to the listeners what it is and how it contrasts to the way the Canadian real estate market works currently?

Scott: Sure. Blind bidding essentially is the way that real estate's been done in North America since we've been keeping track of these things as far as I know. But essentially what it means is that if more than one bid comes in on a property, each offer is confidential. So let's say there are three buyers bidding on your home. Keith, buyer one will make his offer. If buyer two makes a competing offer, buyer one will be advised that there's now a second offer on the property, but he will have no idea, and neither will buyer number two. They'll have no idea what the other offer is. And the same with the third, fourth, and fifth subsequent buyers will have no idea what any of the other offers are. So you're basically just aware that you're competing, but you're taking a shot in the dark. Okay, you're taking a shot in the dark to try and figure out what bid will win. So unlike some other where we have open bidding where you have an auction style, you would know what the best bid was at a certain time and would be able to bid higher like in an auction. So the blind bidding, there's a lot of discussion around whether this is fair, whether this hinders a buyer's ability to be able to get a decent price and whether people are overbidding. So if you're unaware of what the other offers are, and you come in with a huge overbid, and you were, let's say, $50,000 over the next offer, is this bad for the market? So it's definitely a touchy point. I think there were arguments on both sides of it.

Keith: Yeah, this is what I guess some of the policymakers are suggesting. They're suggesting that Canada should move to an open bidding environment where they may not overpay for a home. They may not stretch the bid. Have you seen any of this work in Canada? Have you seen any open bidding?

Scott: I have. I've seen this done. There was one that happened in Kingston. I know in Ontario, there's been a few of them that have been done like an online auction. It's worked very well. From what I gather, they put the minimum price that the seller is going to accept. And from there, there's a certain amount of time that the bidding is open and people can bid up and they see what the offer was and can bid higher and higher. Whether that is going to have any effect on cooling the market remains to be seen. I'm not convinced. I've been in the process with buyers where we've made an offer on a home and we're blind. So we don't know what we're bidding. And of course, we've got a stack of files in our office of buyers that made offers in a multiple-offer situation and didn't get the home. And then they see the sale price come out and they say, oh geez, you know what, Sean, if I'd known that I was $7,000 or $8,000 off the winning bid, I probably would have gone higher. But I was taking a shot in the dark. I thought it was probably a great offer, but had I known, I, so the open bidding to me, it might drive up the bids. Usually, when we're sitting there with a seller, we're looking at five, six, seven, eight offers. Generally, the winning bid is pretty close to the second one. I find it very rare that there's a huge gap between the winning offer and the second-best offer. So in that instance, if you look at the other side of it and say, okay, if this was an open bid, would buyer number two maybe have jumped up and outbid the guy that won? Possibly. Yes. People are in a situation where they're desperate for a home. There's no inventory, and they're willing to do what it takes to win as long as they can afford to.

Keith: Yeah, and with the case you just suggested would actually favor the seller.

Scott: Exactly.

Keith: Because they would get a slightly higher price. Our third guest in real estate has told me, just as I was preparing for the show on the weekend, that she has seen some bids coming in excess of $100,000 between the first and the second bid. That's what the suggestion that you should go into open bidding is trying to stop. And I think the advocates out there that propose this as a policy, I don't know if it'll ever cool the market, but it might make a market more transparent, more open. I know, I'm not a hundred percent sure.

Scott: I agree with you. Definitely more transparent. As to whether it would cool things off, I'm not convinced.

Keith: What do you think about capital gains on property? That's one of the discussion points that some policymakers are launching, and they've got various different twists to it. Some are suggesting outright capital gains on homes, principal residence, which so far has been an asset that does not get taxed. Others suggest things like capital gains tax for those who have lived in the home for less than a year or two, or capital gains tax only once you hit certain home values and above. Do you guys have any thoughts on capital gains tax on principal residences?

Scott: Yeah, it's definitely a contentious issue, for sure. I think you've got a lot of Canadians who view their principal residence as an avenue and a vehicle to save that equity as part of their retirement plan. I think if the government were to turn around and suddenly tax that equity, I think you would throw a wrench in a lot of people's retirement plans and estate planning. In terms of throwing a capital gains tax on people who move within a couple of years, again, you've got an issue there where, I don't know, I bought my home. I'm in it for two years. I get a job transfer, or I find out that my child's being bullied at school and I don't want to live in this neighborhood anymore. I've got a terrible neighbor. The dog barks 24 hours a day. For whatever reason, you want to move, and then you're going to be penalized with a capital gains tax. So I think trying to make it fair is the challenge, Keith. I don't think there's a one-size-fits-all for that dilemma. I know that we're approaching a situation where the government wants to try and do something to cool things off, but I'm not sure if the capital gains tax is the answer.

Keith: What a great response. Policymakers never think of what we call unintended consequences and just issues like, you don't think about the issue of a person being forced to leave because they just can't deal with their home issue anymore. And why should those people be penalized? So that's a great example.

Scott: That's the reason, Keith, why in fact, there is no set time for which a person will be taxed should they sell their house within a year or two years. The government will say, if you can prove that this is your principal residence, and even if you sell after a year, if you can defend the fact that you've sold your house for a valid reason and you're not doing it as a flipper, this is what the government is going after. They've asked Canadians now to declare the sale of their principal residence on their income tax form, and rightly so, this is for the government to be able to tax people who are doing this as a business. And then it's not capital gains tax, it's taxed as income. This is people who are moving every year, renovating a house, flipping it, and making a profit. That law is already in place, and the government will challenge people if they see a trend of people doing this time and time again. However, if someone has just moved into their house, and use an example as I used, their child was bullied at school, or they feel like they've got a nasty neighbor and they have to move, if they can defend themselves successfully, then they're exempt from having the equity built in that home taxed. So it's for that very reason.

Keith: Oh, that makes total sense. And I know that all these policy issues that people are reading about, that our clients are reading about, that our listeners are reading about on the podcast, they read all these suggestions and these policies. Thanks for giving us some feedback on that. It's really good. It's very important to hear, especially from real estate agents who are right in the market. The next big issue that people talk about is supply. And I know you guys, you have some pretty good views in terms of changes. What does that mean when we hear about policy around supply? What has to happen?

Scott: I think we've got to see a few different changes. One, I think we need to encourage new construction at the municipal level. Generally, there's quite a few barriers to building new homes. I think cities themselves are almost their own worst enemy. This not in my own backyard philosophy seems to be prevalent with people not wanting to see new homes being built. Density. Putting bylaws in place where large properties are not allowed to be subdivided to build, whether it be townhomes or condominiums. We've got a critical housing shortage in Canada, and something needs to be done. This is absolutely critical. Unless they can address the supply issue, this supply and demand, and as you talked about, Keith, the upward pressure on price is going to continue because we just do not have enough homes in Canada.

Sean: And one of the critical drivers of the lack of inventory, as we mentioned earlier, was the seniors. They don't have anywhere to go. There are not enough options for seniors who maybe don't want to go into that condo, are not ready for that senior's residence, but would absolutely love to have maybe a semi-detached bungalow in a sort of senior's community. Sean has mentioned this before. We've had many clients express to us that if something like that existed here, they would be the first one in line to buy something like that. But it just doesn't exist.

Keith: Yeah, you're absolutely right. Both of you make very good points, and I love the not in my backyard, which we all refer to as NIMBY, the NIMBY effect. I love these ideas, but not in my backyard. Thank you very much. We all live in an area called Beaconsfield. And you guys remember when Beaconsfield was trying to bring in, and for our listeners outside of or from Ontario, that would be the equivalent of Oakville. They had the senior's residence home that they wanted to set up in Beaconsfield, which was a small subdivision, and the outcry of residents who didn't want to have a senior's residence within the community was, I couldn't believe it. It was quite significant. It was a really hot topic at city council. There were pros and cons going back and forth, but it was an example of how sensitive this issue is. What are some of the issues? Is it rezoning? What should be happening in municipalities?

Scott: Yeah, they've got to change some of the bylaws and get with the times, I think. I think trying to hold on to this fantasy that everybody needs a massive half-acre lot. That's the reality here. We've got some small homes on very big properties, and then there's opposition to new construction of large homes on those large properties for people that can afford them. And then there's an opposition if somebody wants to put forth a proposal to subdivide these huge properties and build more dense housing within the community. So there's got to be some change. Something has to be done. They've got to make it a little bit easier on builders to get permits to build homes. And I think the community has to get behind this, or it's just going to continue. And then our kids aren't going to be able to afford to buy homes. There just won't be enough of them.

Keith: We were talking off-mic. You really got me thinking here. We live in an area where the land size is quite large relative to the home. And these are old neighborhoods, and these neighborhoods exist all across the country. It doesn't matter whether you're in Calgary, whether you're in Halifax. Cities have more constraints. They may be on an island like Montreal. They may have mountains like Vancouver. But we all have this issue of people against construction at a time when we critically need new supply. And it's for both sides of the spectrum. It's for the young new homeowners that need to buy into neighborhoods. And it's for the seniors who live in that area. Unless we figure out what homes they can move into, they do not want to go into retirement homes. They want their own independent living, and we've got to find a way to solve that issue.

Sean: And we also talked about earlier the profile of that move-up buyer, right? I think that the trajectory of the path that a move-up family takes has changed dramatically in the last 20-25 years. When Sean and I were at that age, when we were buying our first starter home, we were fortunate enough to be able to afford a starter home in Beaconsfield in the West Island. Those homes were $150,000, where that's become almost untenable for young people today unless they've got help from their parents who have built up equity in their home and are helping them with the down payment. So they're now being forced to have a different path, maybe going into a condo to get into the market, or having to go off-island and much further away in order to be able to afford that starter home. And if they're fortunate enough and their incomes rise, they may be able to move back onto the island. But a lot of them are staying out in places like St. Lazare, where they're just moving up to the bigger home but staying out in that community.

Keith: Yeah, great point. And you guys had mentioned this before. I thought it was an interesting saying. What is it? You drive until you, what's the real estate say?

Sean: Drive until you qualify.

Keith: So what does that mean exactly?

Sean: I guess it means that, we'll get into this in terms of tips for buyers. The number one thing you need to get is your pre-approval, your mortgage pre-approval. And so making sure that you've got the pre-approval letter and being prepared to move into an area where you can afford to qualify for that mortgage.

Keith: So what you're saying is take the urban city you live in, and if you can't necessarily afford the prices in that area, you need to get in your car, and the expression is drive. And you may need to drive an hour away or even further until you can afford the property price of that particular area.

Sean: Absolutely. We had a story the other day where somebody was looking at a home past St. Colette, we're talking way out west, and even out there, there were bidding wars, and the home was going for over $50,000 over the asking price. So it's across the board, as Sean was saying, it's across the country now.

Keith: Okay, guys, let's talk about affordability. There's a lot of discussion across the country, newspapers, TV, radio, about affordability for Canadians. And then subsequently, are we setting ourselves up for some sort of U.S.-styled real estate correction like 2008-2009? Let's cut the question down into two sections. Affordability.

Scott: Certainly, if prices continue to appreciate at 25%, affordability is a major concern. And I think the governments are looking at some different ways to cool that, which I think is probably a good thing. I think in terms of your comment about a major market correction, I get this question all the time, and we hear this. I see people commenting on our social media when we put out our monthly stat videos. There's inevitably someone who comments that the whole market is going to fall. It's going to crash like the U.S. did in 2008. And I think it's important to point out to listeners that we have a very different banking system in Canada than was the case in the U.S. in '08. We have what's called the mortgage stress test. And this was brought in by the government four or five years ago. I think actually it was a great move. What it essentially means is that if somebody is qualifying to get a mortgage, even though interest rates might be 1.5%, which is where they were hovering a couple of weeks ago, they have to qualify at 4.79%, which is the posted benchmark rate. So there's a big differential between what they're actually having to be pre-approved at versus the rate that they're actually getting. And of course, the reasoning behind this is that it's to protect people in the event of some stress. So whether that be lowered income, loss of a job, and more importantly, an interest rate increase, which we know interest rates are inevitably going to head back up. But if you've qualified at 4.79, there's some protection there.

Keith: Got it. And that's exactly what's also being discussed right now. If I'm not mistaken, OSFI has a new rule that will bring it up to five and a quarter, or is that proposed for June 1st?

Scott: Yes, I know they're talking about increasing the qualifying rate, and that will have an effect of, again, protecting us from these massive foreclosures like what happened in the U.S. in '08.

Keith: Okay, so what essentially you're saying is these stress tests have been implicitly put in place to protect the entire real estate industry as well as the banking industry.

Scott: Correct, yeah.

Keith: As well as homeowners, as well as individuals who obviously nobody wants to find themselves in a situation where they're being choked off and they can't afford to be in their home anymore. So it's really multiple protection for many different stakeholders.

Scott: Yeah, so I think it's a good protection and it's going to prevent us from having this major crash like we saw in the U.S.

Keith: Absolutely. We're going to wrap the show up here. We've got two last questions for you. What would you suggest is the best action or the best way to move forward for new first-time homebuyers? What are the things they must do?

Scott: I think as we touched on a little bit, being prepared, number one. So that involves, as Sean mentioned, getting your mortgage pre-approval. It's amazing. You'd be shocked how many buyers we see who call us on our listings who are out there shopping for homes, haven't even met with the bank yet. They maybe have done an online affordability calculator on a banking website, which we'll get into, that's a whole other topic. But they haven't met with a mortgage broker or a mortgage specialist. They haven't run their credit. They haven't given in their employment information. And they have a false sense of security that they can afford, let's say, a $500,000 home. And then they're out there making offers. It's incredible. I speak to one of my friends who's a mortgage specialist, and he says he gets these files from people who've made offers on homes, and they're not even close to qualifying. So number one, meet with a mortgage professional, get a mortgage pre-approval. And that's not just a pre-qualification. A proper pre-approval involves credit checks, T4s, proof of employment. And then after you've got your pre-approval, don't go out and lease a car. Don't go out and make any big purchases. Another mistake we see, you've got to maintain that credit rating and that debt ratio in order to be able to buy in this market. It's critical.

Keith: Those are fantastic points. Any other points, Scott? Do you have any points you want to share for a first-time homebuyer?

Sean: I would be also working with somebody that you trust, a professional that you trust, who knows the local market. That's another mistake we see a lot, is buyers working with either a listing broker who may not be from the area or working with a broker who's not knowledgeable about that local market. So that's something that is very important, is to work with somebody who's going to give you that advice, prepare you for what's coming, and also knows the market that you're looking to move into.

Keith: So here's a question for you guys. So say you've got a new homebuyer. They typically don't have the biggest budget. Will professionals work with them still? Are they easy to work with right now in today's market?

Scott: They're not easy to work with because trying to find them a home is very challenging and difficult. It's twice as much work for the real estate professional. I think the public out there needs to be aware of that. You hear this, "Oh, you guys must be having a fantastic year. It must be great. You must be just printing money." In fact, what they don't realize is when there's no inventory on the market and you're working with a buyer, you're sometimes going through five, six, seven, 10. We've had clients that have made 12 offers on properties and every time have been outbid and lost. So it's very difficult, but having a real estate professional there is critical. You try to do that on your own, I think your chances of success are next to nil.

Sean: We get calls all the time from people calling on our listings probably three, four, five times a week after an offer has been accepted on it. So they're so far behind the eight ball, and they say, "Oh my God, I just saw it on Centris." If you don't have somebody working for you that knows as soon as something hits the market, they're giving you the information you need and pre-qualifying that for you, making sure you've done those virtual tours. If you don't have that done, you're so far beyond the eight ball. You won't have a chance.

Keith: Yeah, and you know what, those are all really good points because we are in a really tough market. Most people would say they've never seen this before. And so you need to put everything in your odds to be able to move forward. And working with experts, but also working with individuals and making sure you plan and get your data. Data is king, right? So that all makes sense.

Scott: One other thing, Keith, we should mention is just the process that houses in those price ranges for first-time homebuyers usually goes through.

Maybe Sean, you could touch on that, which is the strategy that sellers take of purposely underpricing the property, listing it on a Thursday, having as many visits as possible go through on a Friday, Saturday, Sunday, and holding off on looking at offers until sort of a Monday or Tuesday.

Sean: Yeah, generally, the whole process is a matter of days. You don't have weeks. Home hits the market, flurry of activity for a few days. And then they have an offer review day. So Sunday night or Monday afternoon, all right, all offers have to be submitted by four o'clock. And then the seller is receiving these one, two, three, and then you get, we get the notifications as agents that there's now six offers. There's now seven offers. There's now eight offers. So it all happens very quickly.

Keith: So what I'm hearing is if you're a first-time buyer, you need to really sort your stuff out, get your paperwork, get your financials in order, choose a professional to work with, get a professional that knows the area, and then be prepared to act quickly because things take, in today's market, three or four days typically once a home is listed, and then it's almost a done deal and you're going to get ready for the next listing. Is that a fair assessment?

Scott: Absolutely. That's exactly the way it's happening these days.

Keith: Wow, very different from the first time I bought my home, so different. So guys, this has been a great discussion so far. Last question. You guys have been very creative in developing a new offering that I haven't really seen before coming from real estate professionals. I believe it's called the advisory club or the advisory services. Tell us a little bit more about this type of service, who it's intended for, and why are you doing it?

Sean: Keith, you and I go way back. And I think that when I first recommended you as a wealth management advisor to my parents, it was because of the way you operated, your philosophy around it, which was a little bit different at that time, as I'm sure you'll agree. And we've taken that same philosophy and approach, which is a wealth management advisor versus a stockbroker. And in our business, it's a real estate advisor versus a real estate broker. Meaning we're focused much more on the long term than just the short-term transaction. That short-term transaction is extremely important. However, there is a long-term advisory approach that comes into play here. And so we've taken that philosophy and working with homeowners who are not necessarily in the mode of buying and selling, but want to know what is the value of my home, how can I increase and maximize its value over time, and being able to provide that information, that advice, whether it be renovation and design advice, what should I be doing if I'm preparing for an eventual sale a few years down the road, as well as maintenance and repairs, which a lot of people are just not aware of, myself included.

Keith: So that sounds awesome. Tell us a little bit about the details. So how does one actually get this information? Do you do it via videos? Do you do it via sharing? Did you have white papers that we can download? How do you do that?

Scott: It's an approach from a few different angles, Keith. We do educational videos on our social media and on our YouTube channel. We do a monthly newsletter with pro tips. We also provide any of our club members with access to a service providers directory. So these are people that we've worked with, whether they be contractors, designers, maintenance, handymen, you name it. We've got hundreds of names in there. And these are people that either we've worked with closely or that our clients have worked with and have had very good experiences with. That's where we get a lot of inquiries and asked for help a lot is, "I'm looking for a good contractor. I'm looking for a good roofer, a good foundation expert." So this is where we can offer that value to people and help them, as Scott said, maintain and look after their homes. I think that's one of the things where we saw a definite need and a hole is that people would take their car in every year for a servicing and yet hadn't looked in the attic of their home for the last 15 years. And lo and behold, when they go to sell it, they go into the attic and find it's full of mold and all kinds of problems. We see this on a daily basis. So we said, you know what, I think people need some help and advice on regularly inspecting their home. We recommend people do that every five years, sit down, review the report, and put together a punch list of maintenance issues. And by doing the maintenance, you avoid the big costly repairs.

Keith: You know what, I commend you both for taking on this new approach because I think most people, when they think of real estate agents, professionals, they think of sort of a one-time transaction. And what you're trying to do here is expand that relationship. And I know probably a lot of agents are trying to do similar things, but you're trying to formalize it. You're trying to come up with a way of delivering that valuable information and that ongoing service.

Scott: So I think you hit the nail on the head there, Keith, when you said it was more about systematizing the process and packaging it in such a way that was easy for homeowners to understand and to follow. So it's giving them that regular property evaluation so they always know what is their home worth. When they're sitting down with their financial advisor, they're easily able to have those discussions, which helps them plan for the future. That's the difference between a wealth management advisor and a stockbroker, and we want to operate in that same way with that same philosophy, is helping homeowners manage the asset of their home over time.

Keith: You know what, I think it's an absolutely amazing concept. It is great value. The trick is always in the details and the execution. I'm looking forward to following the story. I'm looking forward to seeing how it's going to evolve and how you're going to execute. But listen, guys, it's been a great episode today. I really want to thank you both on behalf of our clients and of our entire extended listeners of the Empowered Investor. Sean, thank you so much. Scott, thank you so much for participating in today's show.

Scott: Keith, thank you very much for having us on. This is really nice to chat about this and look forward to hearing the episode when it comes out.

Sean: Thank you very much, Keith. We look forward to coming back and having more great discussions like this.

Keith: All right, thank you, guys. Listen, everybody, be well, and we'll speak to you in the next episode.

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