



Silent Money Pours into Toronto

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There is a stealth influx of foreign capital changing the face of downtown Toronto from the waterfront to Yorkville, and no one is measuring it. Statistics Canada reports a decline in net foreign direct investment and portfolio investment in Canada; however, there is an enormous volume of 'silent' foreign capital inflow to Toronto that escapes the purview of Stats Can's data collection. This 'silent' money is coming via the reportedly large numbers of foreign purchases of the ultra-luxe new condos in Toronto—those selling for more than \$1,000 per square foot. This demand is helping to spur the explosion in five-star-hotel residences and other ultra-deluxe condos in downtown Toronto. With limited land, developers are building upwards and soon there will be no remaining outdoor parking lots on Toronto's busy thoroughfares. Even two-storey buildings could be headed for extinction.

Some of these foreign purchasers are investors, but apparently many more are non-residents who will use these condos only occasionally for business or pleasure trips to Toronto or as jumping-off points to the rest of North America. Statistics Canada does not track these inflows, but anecdotal industry data suggest the phenomenon is meaningful. In my view, Toronto is becoming a world-class financial and commercial centre on the order of New York and London. While these condos are going for \$1,300-to-\$1,800 a square foot, they are cheap by international standards. Donald Trump—at the Toronto ground breaking of *Trump Tower Toronto's* construction at Adelaide and Bay—recently declared that comparable property would sell for \$5,000 a square foot in New York and even more in London.

For decades, wealthy foreigners have seen Canada as a safe haven to educate their children. Hong Kong Chinese and other Asians took residence in Toronto and Vancouver in the '80s and '90s, driving up real estate prices and spurring the development of high-end retail stores, spas, restaurants, theatre—increasing the demand for luxury goods and services. This also raised the average house price in Vancouver, now at nearly \$600,000, well beyond the reach of average first-time buyers.

Foreigners are anxious to diversify their assets away from U.S.-dollar dominance. Wealthy foreigners are diversifying their real estate holdings as money pours in from Russia, the Middle East, Asia and Europe. Arguably, Toronto is less at risk of terrorist attack or at least perceived so. No where is the new wave of foreign money more evident than on Bloor Street—Toronto's version of the Big Apple's Fifth Avenue with its mixed-use high-end residential, office and retail space. New designer stores are opening and existing ones are expanding. Canada's-own Holt Renfrew's flagship store has expanded and remodeled,

becoming even more decidedly upscale; as well, designer boutiques such as Chanel, Gucci, and Escada have expanded. High-priced trendy restaurants are popping up city wide and the remodeling and expansion of the ROM, the Gardiner Museum and the Art Gallery of Ontario are enhancing this urban renewal. We are observing the gentrification of Bloor Street west of Avenue Road and east of Yonge Street as downscale commercial properties are replaced by upscale residences and boutiques. For example, the 16-storey ultra-luxury *Museum House* condominium development will take the place of the Pizza Hut opposite the ROM's new Crystal and it will be accompanied by other luxury condos on that same strip of Bloor. Even the seamier side of Yonge St. south of Bloor will change with the coming (in 2011) 80-storey hotel/residential/retail tower of *1 Bloor*, touted as the tallest residential tower in Canada by its Kazakhstan-based developer. This five-star boutique hotel will join the other five larger five-star hotels opening in Toronto in the next few years, taking us from not a single five-star hotel in all of Canada to six and counting in Toronto alone.

Bottom Line: this is a fascinating and important economic development, bearing with it enormous portent. On the positive side, it will be a boost to the revenue base of the beleaguered city government and certainly increase the economic growth of the city and no doubt encourage the rise of the Canadian dollar. On the negative side, it will reduce the affordability of the city for current residents, potentially displacing low-income residents. It puts additional strain on public services and adds to the de-industrialization of the inner city. Historical preservation has become an issue as we have seen with the saving of the old fire house and the frontage of the first site of Mt. Sinai hospital on Yorkville Avenue. We run the risk of creating concrete caverns that block the sun and increase gridlock on already-busy city streets. It is an opportunity and a challenge, and it is happening faster than most people realize.

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