



DICK LOEK/TORONTO STAR

Construction worker Helder Luizinho helps a crane operator guide his loads at the New York Towers condominium site at corner of Bayview Ave. and Sheppard Ave.

Condo conundrum

Brad Lamb has a bone to pick with housing experts who say too many condos are being built in Toronto.

"The problem is, they're not talking to people in the street. There's still a tremendous demand out there," says Lamb.

As both a condominium developer and one of the city's top sellers of condos, you might argue that Lamb has a vested interest in seeing the red hot condo market continue. But while he might be bullish on the condo market, certainly not everyone is in agreement.

At least according to interviews conducted by the Star with the city's top housing analysts over the state of the condominium market for 2004. Many say purchasing a condominium may be risky business.

"You have a situation now where you have an oversupply of condominiums that's only going to grow. There's a lot of product out there and not enough demand," says housing analyst Frank Clayton of Clayton Research.

Clayton, a respected and outspoken housing economist has raised the ire of some developers since he first predicted in the Star last summer that prices of condos would start to fall. And they won't like what he forecasts for 2004.

He estimates prices have already fallen by at least 5 per cent in some areas in 2003, and expects prices on condominiums to fall by another 10 to 15 per cent this year.

According to the Canada Mortgage and Housing Corp. (CMHC), 13,000 condominiums were completed in the Toronto area by the end of 2003, with another 14,000 forecast to

After years of steady growth, is the GTA's condominium market set to crash? Some experts are saying yes, while others aren't so certain, writes Tony Wong

be completed by the end of 2004. Another 12,808 condominiums were built in 2002. Not since the late '80s have so many condos been built over such a short period of time.

"As an investor, you're nuts to buy in this market," says Clayton. "You're in a situation where vacancies are going up, rents are going down and the interest rates may go up. It's a lose-lose situation."

Housing analyst Will Dunning cautions that not every neighbourhood will see a decrease in pricing, but the downtown Toronto area and the North York corridor are likely to see price depreciation.

Clayton says Mississauga city centre is another area that could be on the verge of being overbuilt.

Dunning says investor-driven

'There's a lot of product out there and not enough demand'

Frank Clayton, housing analyst at Clayton Research.

product, such as one bedroom units under 600-square feet, will take the biggest hit, especially as vacancy rates go up and rents go down, causing investors to potentially dump their units.

He's so convinced that he's been keeping an eye on the market personally, since he intends to buy a condominium for his daughter to use while at university.

"Maybe today is not the time to buy something like that, but we'll just have to wait and see a little more in the future, maybe in another year or even two," says Dunning.

RBC Financial Group economist Carl Gomez agrees.

"Toronto's condo market could see some downward pressure on prices, especially among the numerous small-square-footage condos popping up in the downtown core," he says in a recent housing affordability report.

One of the biggest problems with the condominium market is that rents have softened dramatically, causing some worry especially for the smaller investor, says CMHC analyst Ted Tsiakopoulos.

Asking rents for condominiums have fallen by about 15 per cent year over year. A 700-square-foot one bedroom condo that would have fetched over \$1,500 a year ago is now renting for \$1,300, says Tsiakopoulos.

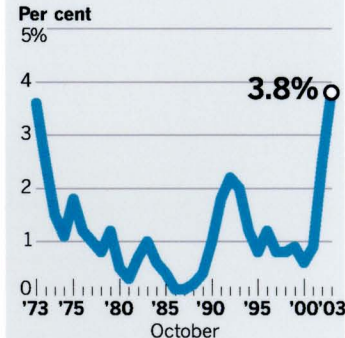
"It's harder to make a return on your money when the rents fall like that," he says.

George Chin-See is already experiencing a problem renting his one-bedroom Yonge St. condominium in North York, which he purchased three years ago.

"I had no problems renting it out when I first got it. But over the last two months I had to drop the rent twice by \$100 each time before I finally got a tenant," says Chin-See.

For rent

The vacancy rate in the Toronto CMA in privately initiated apartments of three or more units was 3.8 per cent in October, up from 2.5 per cent in 2002.



NOTE: The above are all Octobers

SOURCE: Canada Mortgage and Housing Corporation

In November, the vacancy rate for apartments hit 3.8 per cent, up from 2.5 per cent a year ago, and the highest it's been since the '90s. Low interest rates have made buying cheaper than renting in some cases, as first time buyers have typically purchased condominiums, driving up vacancy rates.

This trend is expected to get worse for landlords with a forecast vacancy rate of 5 per cent by the end of 2004. One indirect reason is that another 14,000 condos are scheduled to be completed by the end of this year.

Those condos are not counted in CMHC statistics for vacancy rates, which looks purely at apartment buildings. But if you

figure an estimated 25 per cent of condos are bought by investors, then you have another 3,500 units on the market that will be looking for renters.

Meanwhile, the other 10,500 completed units presumably purchased by owner-occupants will also have an impact on the vacancy rate, since many will be coming from the rental universe and leaving behind their apartment to live in their own condominium.

Still, if you purchased a condominium two years ago and are just moving in now, you're already ahead of the game, says Clayton.

"You've got some capital gains to fall back on. It's the people purchasing now that would be of the most concern."

What analysts are now closely watching are the number of condominium projects on the market that may be pulled in the new year due to lack of demand. In 2003, more than 15,000 condominium units were offered to buyers from 86 projects in the GTA according to Clayton Research.

Clayton analyst Robert Feldgaier, vice-president of residential services, is watching the market closely and expects some of those projects to fail in the first half of this year.

"The situation we have now is that you have a lot of very large projects coming on to the market that are running considerably ahead of demand levels," says Feldgaier.

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Is condo market's bubble set to burst?

► **Condos** From C1

"There are some projects out there already that are not getting the rate of sales expected. We expect that some developers are waiting until the new year to see whether they will proceed or not."

TD Bank Financial Group senior economist Derek Burleton released a study on the Canadian housing market last month that concurred with Feldgaier.

"The city's large condominium market, which has been the driving force behind much of the strength in homebuilding activity since 1997, is expected to return closer to Earth, owing in part to weaker demand from first-time buyers and investors," says Burleton.

Still, Burleton argues, as do most analysts, that this is a vastly different housing market than the bubble seen in the 1980s. For one thing the market for single family low-rise housing is still going to be strong for 2004.

"Apart from some sectors of the condo market, the demand continues to be very good for single family homes," says Dunning.

But homeowners still haven't forgotten the real estate bubble of 1989, which saw condo and house prices crash by more than 40 per cent in subsequent years.

"The problem is we had this horrific thing happen that nobody can forget, and they have a hard time believing it can't happen again," says Lamb.

Burleton says this condominium market is different from the '80s in a number of ways. With prices climbing by about 8 per cent a year since 1999, that is still one-third of the pace in the 1980s.

Secondly, most financiers are requiring that the project be at least 70 per cent pre-sold before starting, taking much of the speculative element out of the market.

As well, with vacancy rates spiking, the number of investor-held condos actually fell in 2003.

"Rather, it is first-time homebuyers that have been driving the activity in the Toronto market, attracted by the low interest rates, a situation that appears to be mirrored in other markets across the country," says Burleton.

Condo developer Lamb agrees with Burleton and says the market's solid underlying fundamentals continue to be a positive sign.

"The economics to support the market are there," Lamb says. "Before you buy a property, you've got to ask yourself some fundamental questions. Do you have a job? Will you have that job a year from now? Are interest rates low? Do I have the down payment? Is the economy strong?"

"If you can answer those questions then you're okay, and it's never been better than right now."

Still, Lamb is hedging his bets by saying he's not sure whether the market will rise or fall in the short run.

"I don't think the average investor is buying a condo for six months. The reality is that Toronto is a great place to live and real estate is still cheap here internationally. I wouldn't bet against the city in the long run."

Economist Clayton argues that while housing can be a long-term investment, like any other market it is cyclical, and the condominium market is ready to come off its peak.

One problem for any highrise developer is that it can take two years or more to build a condo. By that time, they may be introducing their product to a vastly different market.

Another issue is that after several years the buyer may have very different needs, and may want more space, or may wish to move to low-rise housing, ultimately placing their condo unit back on the market.

"As a developer, it's difficult to gauge all this. But if you've lived through this before you usually see it coming," says Clayton. "We had a condo cycle in the 1970s, then another in the early '80s, then in the late '80s. You may have certain factors that are different, but ultimately this is just one more cycle we're going to have to live through."