Unstoppable condo sales put Toronto market at risk of overheating: CMHC

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The real estate market in the Toronto area is in danger of overheating, with condos driving much of the momentum, according to a new report from the Canada Mortgage and Housing Corporation.

The CMHC's quarterly market assessment, released Thursday, found that the Toronto area and Hamilton were showing "moderate" signs of overheating, with home sales outpacing new listings in the third quarter — a situation that has happened at least twice in the previous 12 quarters.

According to the CMHC's Dana Senagama, the condo market is showing no signs of cooling off, despite plenty of new construction.

"Really, the activity is mostly in the City of Toronto, especially in condos,"said Senagama, CMHC's manager of market analysis for the Toronto region.

Condo sales are being driven not only by people looking to buy a home, but by investors looking to get into the rental market, said Senagama. With very few rental-only buildings going up — and rents skyrocketing — condos are a way for investors and renters to satisfy their needs.

Because of that, said Senagama, many of the new units will be filled not by their owners, but by people renting them from investors.

"The condo market has stepped in to fill that gap. It has become a de facto substitute for purpose-built rentals," said Senagama.

At the same time, the price of single-family houses is making condos more attractive, particularly for first time buyers, Senagama added.

"With single-family detached houses at a million dollars, there are a lot of people who just can't afford that, but home ownership is still important to them, and they get into condos," Senagama said.

Jason Mercer, director of research at the Toronto Region Real Estate Board TRREB), agreed that condos are driving much of the momentum in the local real estate market. That held true, says Mercer, even when house prices took a bit of a fall in the wake of new regulations introduced in 2018, which were designed to tighten mortgage lending.

"It was one segment that really didn't see any price drop at all," said Mercer, adding TRREB is forecasting a 10 per cent rise in the prices of Toronto-area condos this year.

Even houses didn't stay down for very long after the mortgage stress test was introduced, Mercer added.

“We had a temporary lull. Demand-side moves are always temporary. People still need a place to live,” Mercer said.

While there’s still plenty of demand for condos — both from potential renters and people looking to buy their own home — there’s another key factor which will keep the bottom from falling out of the market.

After getting burned by a crash in the 1990s, lenders tightened the purse strings on builders looking to put up condo buildings. Rather than handing money out when only 15 or 20 per cent of the units in a proposed development had been pre-sold, they wanted more assurance that the project will succeed.

“I don’t ever see a condo crash happening like what we saw in the ’90s. A lot of those were very speculative investments. Now, builders can’t get financing until 80 per cent of the units are sold. So the conditions that helped lead to that have changed,” said Senagama.

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