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Posthaste: More than half of Toronto new condo investors are losing money for the first time

Investors losing as much as $1,000 a month renting out new condos

Pamela Heaven || May 30, 2023

More than half of new condo investors with a mortgage are now losing money renting them out, a new report says. PHOTO BY NATIONAL POST

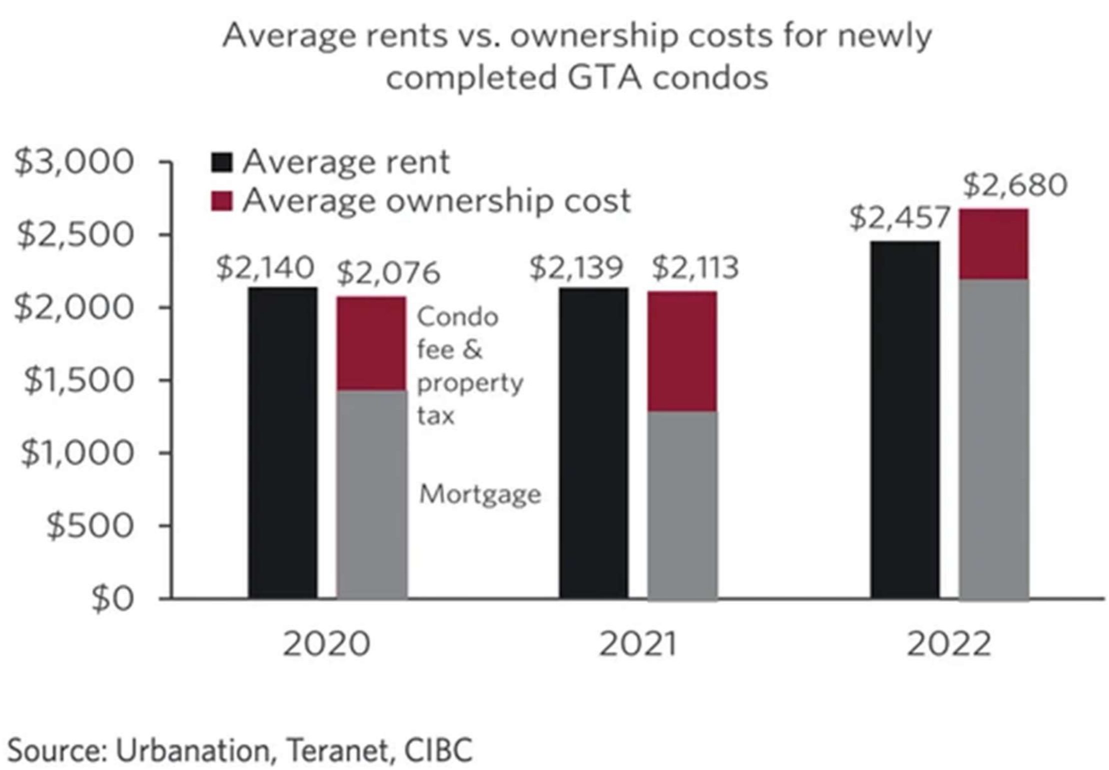
It's getting tougher to be a condo investor in Toronto.

For the first time last year, more than half of investors in newly completed condos with a mortgage were losing money on their rental properties in the Greater Toronto Area even as rents soared to new highs, says a report by CIBC and research firm Urbanation Inc.

The losses were substantial. In 2020, such investors were making on average $63 a month. By 2022, they were losing $223 a month and early data suggests by the first quarter of this year that loss increased to $400 a month. About 11 per cent of this group were losing $1,000 a month or more, the report said.

“While the rental market recovered and rents reached new highs in 2022, that growth was more than offset by rising mortgage costs as interest rates soared, resulting in the average investor of newly completed condos experiencing negative cash flow for the first time,” said the report.

Most condo investors, 72 per cent, buy new because the time it takes between the presale and completion, usually about five years, should be enough for rents to rise to cover ownership costs. This time mortgage costs have outstripped the gains in rent as the Bank of Canada hiked interest rates from 0.25 per cent to 4.50 per cent.



And the situation is expected to get worse.

“2022 marked a turning point towards negative cash flow that is expected to worsen in the years ahead as increasingly higher-priced new condos that were presold to investors in the past few years at the market peak reach completion in a higher interest rate environment,” said the authors CIBC deputy chief economist Benjamin Tal and Urbanation’s Shaun Hildebrand.

This is important because condos are important to Toronto. In one of North America’s tightest rental markets, condos here represent the highest share of residential construction in the country.

Housing supply in Toronto continues to tighten, says the report. Sales in existing homes are rebounding but new listings have fallen to levels not seen since the 1991 recession (aside from the pandemic plunge). Nor is construction filling the gap. The report says housing completions per capita fell to a more than 20-year low in 2022, putting Toronto last among major centres.

Meanwhile, demand is surging. An earlier study by CIBC put the number of permanent and non-permanent newcomers to Canada in 2022 at almost one million. More are expected this year, and a third of the total could end up in Toronto.

Rental investors account for 39 per cent of the total condo stock in Toronto, and almost 60 per cent of units built in the past five years. Investor demand then is crucial for housing supply, said the report. “If investors aren’t buying, developers won’t be building.”

Lower interest rates and higher rents in coming years will lessen the impact on condo investors, but not enough to stop their cash flow situation from getting worse, the report said.

Where it goes from here depends on condo prices and interest rates. Investors may be willing stick it out if they think rising prices will make it worth their while in the long run.

“The bigger picture issue is that investors may no longer be able or willing to buy condo presales to the same extent as in the past,” said the authors.

“This raises the risk of reduced new condo demand, new construction activity, deliveries and, ultimately, rental supply. All of this speaks to the need for more purpose-built rental housing.”