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Real estate receiverships on the rise in Canada as projects stall

Multiple condo projects are being pushed into receivership in Vancouver and Toronto

Ian Bickis || February 3, 2024



The One, an 85-storey luxury condo tower under development in Toronto, is one of the most high-profile projects to be put into receivership. Real estate groups say they're seeing an uptick in large projects being placed under receivership. (Cole Burston/CBC)

From one of Canada's tallest condo towers to bare tracts of land, residential development projects across the country are increasingly being pushed into receivership.

Elevated interest rates, construction costs and delays, and a slower real estate market are all contributing to the rising frequency of projects coming under financial stress, say experts.

"A year ago it was maybe a call a month, a call every two months, and now it's a call a week," said Mike Czestochowski, vice-chair with real estate company CBRE's land services group.

Receiverships are a way for secured lenders to have the court appoint someone to take control of the property and either liquidate it or otherwise maximize the value of the assets.

While often thought of as a last resort, CBRE has seen an increase in receiverships as bigger construction projects with multiple mortgages and parties involved start to run into trouble.

"These projects that are under construction, they've seen such a rise in prices that they just, they run out of money," said Lauren White, executive vice-president of the firm's land services group.

That was the case in Kitchener, Ont., where creditors filed for receivership against the owners of the Elevate Condominiums project, planned as four towers.

By the time the filing was made in October, construction crews had already walked off the site, leaving it 80 per cent done but not weather sealed. A December report found that the owners had a mere \$300 in the bank when the receiver order went through, and owe over \$100 million.

Other projects aren't getting that far.



The One is located at the corner of Yonge and Bloor streets in Toronto. (Cole Burston/CBC)

Creditors on a planned 55-storey condo tower in downtown Vancouver filed for receivership in mid-January, including BMO, which is seeking repayment of more than \$82 million in loans.

Some projects run into trouble even after construction is largely complete. Duca Financial Services Credit Union Ltd. filed an application on Jan. 19 against a Mizrahi Inc. condo project at 128 Hazelton Ave. in Toronto, seeking repayment of its \$16-million loan.

While the largest developers can generally still secure funding, smaller ones are finding it hard to get more money as the second-tier lenders they often rely on become more cautious, said Czestochowski.

"So as debt comes due, it's a little bit more difficult."

Ontario has seen the bulk of receiverships in recent months, but over the past year, the process has been applied to everything from a historic bank building in Saint John, N.B., to a fire-plagued apartment in Winnipeg.

High-rises are especially seeing an increase, said White, given all the challenges these projects present, and the potential for delays.

"A lot of it comes down to mismanagement, as to not realizing the length and complexities of the development process," she said.



Experts say high-rise buildings in particular face troubles with funding given the potential for delays. (Cole Burston/CBC)

The One, an 84-storey building under construction in Toronto that Mizrahi Inc. is also developing, is probably the most high-profile project to face receivership recently.

Filed in October, court documents showed the developer has \$1.7 billion in debt and expects construction to be finished more than two years late and more than \$600 million over budget.

Other notable developments include creditors pushing in November to have receiverships put in place on at least five projects by Vandyke Properties covering more than 1,700 units in the Greater Toronto Area, some already under construction, with claimed debts topping \$200 million.

'Extreme legal relief'

Receivership is something available to secured creditors as a way to potentially recoup their money when borrowers begin to default.

The focus of the process is to maximize the value, said Dan Wootton, a partner at Grant Thornton's restructuring practice, so it could mean completing the project with the existing developer, as is the case with The One, or just trying to sell as-is.

Lenders will generally try to work with borrowers, and there will often be more than one missed payment, before the route is taken, said Wootton.

"Receivership is considered pretty extreme legal relief."

Not all applications are approved.



Coromandel has 16 active real estate projects in Vancouver, B.C., including a townhome development on Oak Street at West 52nd Avenue. Its application to be put into receivership was denied. (Jon Azpiri/CBC)

In December, a B.C. judge denied a request to put Coromandel Group, with about \$700 million in secured debt across 16 properties, into receivership. The decision to deny it was based in part on some of the properties already being in their own receiverships.

When approved, a receiver will assess what it would cost to finish the project and compare that against how much a developer can expect to bring in with the sale of units. When that works out to a shortfall because of higher-than-anticipated costs, sometimes drastic action is needed.

"What unfortunately can happen is all of those pre-sale condo purchase agreements may be terminated. So it's almost like a reset," said Wootton.

"Maybe you need to even change the project itself ... instead of a condo, maybe it becomes a retirement home, right, or a student residence," he said.

Buyers are sometimes given the option to pay more for units, though projects are also getting into trouble because buyers can no longer qualify for a mortgage at the higher price, forcing developers to try and resell them into a quieter market.

Trying to resell whole projects is also difficult in this market, as many are focused on their own projects, said Wootton.

"The larger developers, we're hearing they're not taking on that many new projects right now. They're focusing on finishing what they have."

There are still buyers out there, but they're not rushing into deals, said CBRE's White.

"A lot of people are looking for a deal. They're trying to time the bottom of the market, which no one can," she said.

The last time receiverships were this bad was likely the early 1990s, she said, but the overall market is at least still more active than back then with interest still coming in on potential receivership sales.

The market though, still has some ways to go before a recovery, said White.

"I think we have another, at least six months, you know, where the calls are picking up, not slowing down."