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## Condo owners' pain could be condo buyers' gain, as market meltdown continues

*Robert McLister: Condo sellers in towns like Toronto are about to give buyers a windfall chance at low prices*

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Condominiums next to the CN Tower in Toronto, Ont. PHOTO BY COLE BURSTON/BLOOMBERG FILES

Buy low, sell high, they say. Well, it looks like condo sellers in some towns (looking at you, Toronto) are about to give buyers a windfall chance at low prices.

The psychology in some of Canada's biggest condo markets, particularly those with large immigrant populations, has been deteriorating for months, but the meltdown is

worsening. It may not be a Chernobyl — because prices will someday recover — but it’s definitely feeling Three Mile Island-esque.

The reason is simple: the fundamentals are about as pretty as my Amazon.com Inc. stock during the dot-com bust, particularly in metro Toronto, which is dealing with:

- A record number of condo listings (up 38 per cent year-over-year)
- “Two years of record condo completions ahead, through 2026,” according to housing analyst and Edge Analytics president Ben Rabidoux
- Plummeting third-quarter condo sales (especially for new condos, which are at their lowest since 1995 according to Urbanation)
- A 46.6 per cent surge in condos listed for rent in Q3, according to the Toronto Regional Real Estate Board (TRREB)
- Unsold new condo inventory that’s 56 per cent above the latest 10-year average, per Urbanation
- Surging days on market (up 43 per cent year-over-year)
- Diving rents as those who can’t sell try to generate cash flow
- “Deeply cash flow negative” rents for investors at 80 per cent loan-to-value — and that’s despite falling mortgage rates, says Rabidoux
- More aggressive price discounting from developers who held back units (“Many were *hoping* they could sell them at inflated prices once the condo corporation was registered,” says mortgage broker Ross Taylor of Concierge Mortgage Group.)
- Supply from the small percentage of panicked sellers who can no longer qualify for a mortgage on the condo they overpaid on a few years ago, often because it won’t appraise for the purchase price

You get the picture.

**Pro tip:** “RBC is often the lender of choice for new construction projects,” Taylor says. “RBC locks in the value at the purchase price no matter what the eventual truth is. This is a big boon to buyers whose homes are now valued less than the purchase price.”

In the GTA, TRREB says third-quarter condo resales dropped 4.4 per cent while listings jumped 10.6 per cent. But that’s *before* the government’s bombshell announcement that it was slashing Canada’s population for the next two years. Talk about kicking the legs out from under a market. Condos in places like metro Toronto, Vancouver and Montreal are heavily tenanted by temporary residents and immigrants.

By the way, Canada's annual population has never fallen in records going back to Confederation in 1867. Why the feds had to play economic Russian roulette and make population growth negative (-0.2 per cent a year for two years) is beyond logic. Rebalancing housing demand to supply is one thing; levelling an immigrant-dependent economy in the process is another.

And God forbid that the Bank of Canada chooses not to drop rates the 100 basis points the bond market's projecting. If they don't, the condo demand picture could get even uglier.

As if bad fundamentals and sentiment weren't enough, landlords now face the cruel irony of homes becoming more affordable. That's assuming you judge by the ratio of mortgage debt to income. So renters are eyeing their overpriced sky-closets and thinking, "Maybe it's time to buy a place where I can actually stretch both arms at once."

Speaking of which, bachelor units face the greatest price risk of all. They had a stunning 77.6 per cent surge in rental listings in Q3, says TRREB. For condos with no bedrooms, average rents are dropping 8.8 per cent on an annual basis.

For "dog crate condos," prices could go "pretty damn low, maybe lower than we could guess," said mortgage expert Ron Butler on X this week. "This isn't just a "wait until prices get down and buy" thing... This may be an 'I don't want to buy a dog crate condo at all' thing."

By the way, there's a reason why some mortgage lenders won't lend on tiny bachelor units unless they're default insured. Or they impose a 400 to 500 square foot minimum, for example.

But every asset has a clearing price, and there will be better days ahead. For one thing, immigration will ramp up again in 2027, the feds promise. For another, "there could be a massive shortage of supply coming in 2028 due to underbuilding today," Rabidoux notes, and condo developers will only be further discouraged from starting new projects in this horrid market.

## **Vulture investors will go bargain shopping**

If you're a brave, patient soul looking to do some bottom fishing on condos but you're unsure how to snag a mortgage, here's an idea of what you'd need to bring to the lender's table.

Assuming you want the best terms on a \$600,000 Toronto rental condo with 20 per cent down and a 30-year amortization, rental expert Dalia Barsoum from Streetwise Mortgages suggests you have:

- A 680-plus credit score
- A ratio of monthly obligations to gross monthly income of 45 per cent or less

- Roughly \$145,000 of income, presuming your own housing costs are \$2,500 a month

This assumes a \$500 monthly condo fee, a 0.75 per cent property tax rate and no other debts.

And if you need an alternative lender because your credit score looks like a golf score, or your debt ratio is too high, expect to pay at least 100 to 150 basis points more on the mortgage rate. And tack on a one to two per cent lender fee, Barsoum says.

And for these less qualified borrowers, she recommends a one or two-year fixed term to allow a refinance into better terms when one's income, credit or debt ratios improve.

For borrowers with rental portfolios — those who want to add another unit — they are different animals. Lenders have restrictions on how many properties you can own and what percentage of rental income they'll allow on your mortgage application. As a result, Barsoum says she is constantly having to get creative these days, “structuring rental properties in a strategic fashion to ensure that we can ‘squeeze’ the best terms and cost of money for clients as they acquire more rentals.”

Even if you have Warren Buffett's credit score and can easily get financed, timing is everything. “I'd sit on the sideline and see what plays out for the next year,” Rabidoux says about condo bottom picking.

Plus, not all immigrant-heavy condo markets are imploding like Toronto's, he says. “On a risk scale of one to 10, Toronto is a nine, Vancouver is a six or seven and Montreal is a two.”