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How presales helped Canada's condo market boom, then collapse

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The third quarter of 2021 saw 7,773 pre-construction condo sales in the Greater Toronto and Hamilton Area. This year's third quarter saw just 319 units sell, a drop of 95 per cent.

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As sales of preconstruction condominiums in the Toronto region continue to tally their worst performance in more than 30 years, with a record number of projects being cancelled for lack of demand, industry experts are asking what lessons can be learned to avoid a future bubble.

"Preconstruction is gambling. ... This was a house of cards that was built to fold," said Dave Fleming, broker with Bosley-Toronto Realty Group Inc., who has been writing on his Toronto Realty Blog for more than a decade about the financial risk inherent in preconstruction condos for everyday buyers. "If you took it apart and looked, it was unsustainable. But you couldn't hear yourself talk because everyone

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else was ringing the bell on another sale.”

The velocity of buying set records in 2021, with 30,844 preconstruction condo units sold in the Greater Toronto and Hamilton Area, according to data from real estate research firm Urbanation Inc. The third quarter of 2021 saw 7,773 sales. Just four years later, this year's third quarter saw just 319 units sell, a drop of 95 per cent. That has led to another record: Most condominium projects cancelled with 6,981 units across 32 projects since the beginning of 2024, and another 20 (accounting for more than 4,000 units) in danger of following.

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The reasons for the boom and bust of the condo market are manifold, but Mr. Fleming and others argue that one sign of the growing risk was when preconstruction prices – agreed to years in advance of when the condo building would actually be delivered to the buyer – were listed well above what actual condos cost in the current market.

“When they were first legalized in the 1970s, condominiums were intended to be cheap starter homes. They haven’t been cheap starter homes for a really long time,” Carolyn Whitzman, adjunct professor and senior housing researcher for the University of Toronto’s School of Cities.

According to data from Urbanation, in 2017, the average price per square foot for both resale and preconstruction was under \$800; by 2019, preconstruction condos averaged \$1,000 per square foot, a 22 per cent price premium over what the actual resale market was. In 2022, the resale market peaked at about \$1,100 per square foot, but preconstruction prices reached their zenith at \$1,400 per square foot, 28 per cent higher. While the resale price has since crumbled 13 per cent to around \$957 per square foot today, preconstruction prices only fell 4 per cent, meaning the current 41 per cent price gap is higher than ever.

Even while more money than ever was being spent per square foot on condos, what buyers got for that money kept shrinking. Data from Statistics Canada’s Canadian Housing Statistics Program show that between 1970 and 1991, the median living area for a condo apartment was more than 1,000 square feet in Toronto. In the next decade, that dropped more than 30 per cent to under 750 square feet, and by 2022 it had fallen below 650 square feet.

One irony is that preconstruction sales were a response to avoid the problems of the last condo crash of the 1990s, where much of the speculative spending came from financial institutions. In the decades since, it became common practice for banks and other construction lenders to demand as much as 70 per cent of a new condominium project’s units be presold before underwriting the loan.

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According to Shaun Hildebrand, president of Urbanation, developers turned to real estate brokers to find the hundreds of preconstruction buyers needed in relatively short periods of time to meet these financing needs.

“The goal of selling out as fast as possible creates inherent risks for the market as we’re experiencing today,” said Mr. Hildebrand. “I would ask the ‘platinum agents’ whether their investor clients were paying attention to the fact that prices were so far above resale, and that rental cash flow was certainly going to be deeply negative. Their response was: ‘We stopped talking about the numbers with them.’”

Realtors could be regulated better, but another solution to future overhyping and speculation is alternative financing that doesn’t require so many buyers to underwrite it.

Other jurisdictions use preconstruction financing with less speculative bubbling, according to Ben Haythornthwaite, director of market analytics at real estate data company CoStar Group. Other markets restrict speculation by requiring much higher deposits and only opening sales closer to a project beginning construction. But there are also few places that had as long a sustained run-up in prices as the GTHA did over the last 20 years: “The longer the boom the bigger the bust,” Mr. Haythornthwaite said.

Leor Margulies, real estate partner at law firm Robins Appleby, has been working with some of the biggest builders and financial institutions since the 1980s and says over the past 50 years, there has been a half-dozen corrections to the real estate market, but argues that trying to fix it flies in the face of human nature.

“This roller coaster, for the industry, for government, it’s a nightmare. The reality is, it’s a market that’s very emotional. When buyers think there are circumstances that are going to drive prices up, that starts heating up the market,” he said. In his view, the worst speculators in the current crash were those who agreed to purchase multiple units, but never had the financial ability to actually own them.

“One guy and one unit it’s fine,” Mr. Margulies said. “[But] we started getting people buying three, four, five.”



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There is currently no way for developers to know what a buyer has promised to purchase from other developers and builders, no central registry of preconstruction purchasing or reassigning that lenders and builders could use to weed out speculators.

For Ms. Whitzman, there’s some merit to the idea of regulating these preconstruction contracts similar to the way securities such as stocks and bonds are regulated, requiring disclosures, prospectuses and penalties for misleading buyers.

“We’ve been treating housing – which is a basic need and a basic right – like a stock,” she said. “We’ve been so dependent on housing speculation that it’s biting a lot of people now. This is one of the times where it’s bad to have just bought a condo.” She also notes that creating more non-market rental housing supply might remove some of the financial incentive for landlord investors tempted to take risky bets on expensive condos.

There are rarely magic bullets that will rebalance a system with so many participants wrapped up with so much emotion and money. But sometimes the fact of the crash can change behaviour.

“After having witnessed all of this, who’s going to be the person that goes into a condo sales centre in 2026?” asks Mr. Fleming. “It’s like in 2009 a person saying ‘I want to buy a mortgage-backed security.’”

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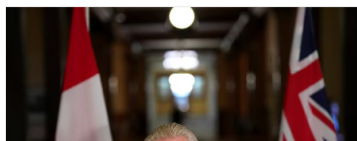
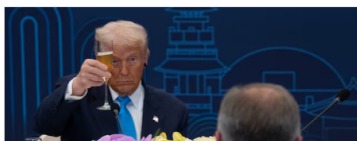
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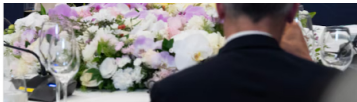


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