



THE INVESTMENT MARKET OF CONDOS IN TORONTO AT THE END OF 2017

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In the second half of 2017, the real estate investment market drastically changed in the GTA. New regulations introduced by the government regarding a change of mortgage rules aimed at cooling the

market were effective only in the freehold segment; that is, in the segment of detached and town-houses. The bulk of the impact was felt by real estate valued over one million dollars; here, the prices dropped 15-20% from the maximal price that was set between March and April of 2017. Distanced regions of the GTA suffered sufficiently less; the drop here was around 5-10%. At the same time, the new regulations had a diametrically opposite effect on the market of condo apartments – due to many factors. First, in the previous year, the market of apartments was not rising in price as rapidly as the freehold segment; as a result, it did not end up in the soap bubble. Second, apartments are generally located in well-developed regions in terms of infrastructure and transport systems; yet, they differ by several times in price as compared to detached and town-houses in these regions. Currently, the condo segment is the only viable option in developed regions. I have been dealing with investment deals in the condo segment for over 20 years, and I would like to note that at different times we used different investment strategies that take into account the trends in the market of a certain time period. Despite the fact that the condominium market of Toronto is evidently in an uptrend and still undervalued relative to world prices for cities at Toronto's level, I believe it is time to make a correction, or rather an addition, to the investment strategy that we used in the recent years. The fact is that the prices for new buildings located in the heart of downtown – which over the past ten years brought maximal profit to investors – have soared in price over the past two years to the point that renting them no longer brings a positive monetary flow – the so-called "cash flow." The rent in downtown





Toronto is precipitously growing in price and there is every reason to suppose that by the time of construction completion of today's projects we will once again see a positive cash flow when putting an apartment up for rent. However, today I would call these deals speculative; they depend specifically on the price rise of real estate which makes them even more risky. I have no doubt that in the near future the rise of prices in this segment will continue and investments in these projects will bring the investors excellent dividends. Nonetheless, I think that investors should also direct their attention to less expensive projects located on the outskirts of downtown Toronto, but still in regions with rapidly developing infrastructure and good transport accessibility. Previously, these projects have not been in high demand since they brought sufficiently less profit as compared to projects in central downtown. Now, however, this segment is becoming very attractive. Below are several factors that indicate that prices for relatively inexpensive apartments will grow:

1 Canada has sufficiently increased quotas regarding accepting immigrants and the majority of them will settle in the GTA. Generally, these are people with some money but not millions, thus, inexpensive apartments are a perfect option for them.

2 The changes in mortgage rules stimulate the possibility of new immigrants and those who are purchasing for the first time to obtain inexpensive real estate. It is relatively easy for first time buyers to obtain a credit. Almost all banks already have special financial programs for newcomers and first time buyers with a preferential loan rate and a minimal down payment. The real estate in question is valued between \$400-600 thousand.

3 A large amount of people from the "Baby Boomers" generation are striving to move from already paid out houses to apartments located in developed areas with great infrastructure. Their goal is to obtain an apartment without attracting financing and this is generally real estate in the middle of the price range.

4 Parents understand that if they do not purchase real estate for their children now, the children will likely have to live in rent for at least several years. They strive to release their children into the world with at least some kind of real estate. Although the young generation strives to live in downtown, by far not everyone has the means to purchase expensive apartments. Furthermore, many wish to obtain an apartment not far from where they currently reside.

5 Finally, there is a large category of people who spent years saving for the down payment of a personal house but could not keep up with the rates of price growth and are now "overboard" since the new mortgage rules prevent them from receiving financing for a home. These are also potential buyers of apartments in the mid-range of prices.

These are just several factors that point towards the fact that the segment of relatively inexpensive apartments will be in very high demand in the near future and investors should seriously consider this type of real estate. However, this does not mean that one should purchase apartments in any projects. The choice of project should be very careful and the main factor to consider is the location of the apartment. It should be in a region that will soon undergo serious infrastructural changes. Besides this, one needs to analyze their capabilities and if you have enough money for a deposit of a spacious apartment in downtown, this should remain the priority. If not, then in my

opinion, instead of buying a small studio apartment in central downtown, it is better to purchase a larger space in the outskirts.

Over the past year, we diligently analyzed the map of Toronto and outlined a series of very perspective regions that currently have attainable apartment prices and have an excellent potential in the future. Therefore, if you do not have the means to purchase expensive real estate, in my opinion, this is a wonderful opportunity to invest in a less expensive segment. In the past this segment brought much smaller dividends than more expensive real estate in downtown. Now, however, it is debatable which option is more profitable. If you are interested in investment deals in the apartment segment, give us a call or visit us in our office in Richmond Hill. I will gladly share my experience with you that I have obtained by working with investments for many years.

