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Cautious buyers send Toronto condo sales plunging

By TARA PERKINS

Ottawa recently signalled its concerns about overheated market in the country's commercial hub

Condo sales in Toronto's downtown core took a large dip in June, a sign that efforts by government, regulators and the central bank to cool the market are causing buyers to be more cautious.

The condominium market in Canada's most populous city has been singled out by policy makers in Ottawa as one of the most worrisome spots in the country's economic landscape, with Finance Minister Jim Flaherty fearing that young buyers might overpay just before the boom ends.

The latest figures, released Thursday by the Toronto Real Estate Board, suggest that downtown condo sales fell 18 per cent in June from a year ago, to 1,415. By comparison, they rose 5 per cent in May to 1,632. While there had been a decline in March of 2 per cent, that pales next to June's decrease.

A decline in sales and the appreciation of prices – which rose 4 per cent in May – is welcome news to policy makers and the central bank, which has also warned about the effects an ultra-low interest rate has had on the behaviour of both lenders and buyers.

But these figures don't entirely capture all of the new condo construction under way, "and that's where a lot of the concern lies," said Craig Alexander, chief economist at the Toronto-Dominion Bank.

Prices held up despite the softer sales, rising 2 per cent from a year ago to \$364,597 on average.

The figures represent sales that occurred through the MLS system, and predominantly capture sales of existing condos, as opposed to units still under construction. Sales of preconstruction units are down sharply, compared to last year's record levels.

More units are being built in Toronto than any other city in North America. The fear is that when they come on the market the demand will not be there, and that will result in a significant drop in prices.

"I think over the long term, condo development needs to happen and the condo market in the GTA will do well, but after the strong run that we've had and with the supply challenges that are coming, I do think we could see a close to 15-per-cent decline in prices over the next two to three years," said Mr. Alexander.

RealNet Canada Inc. will release June preconstruction sales figures next week, but sales in the first five months of this year are 22 per cent below last year's levels in that market, and May's figure was 37 per cent lower than a year earlier.

While the decline is significant, a large number of investors and Torontonians have still been scooping up yet-to-be-

built units.

RealNet president George Carras notes that sales so far this year are still the second highest level on record, topped only by 2011.

Brokers and agents said Thursday that they've noticed much more of a decline in demand for preconstruction units than for average resales.

"I see investors cooling off at the higher price per square foot and some of the preconstruction stuff," said Jeff Johnston, a Toronto area agent with Re/Max Condos Plus.

He added that the new mortgage insurance rules that the federal government announced late last month will have an impact on preconstruction sales, because the rules will likely apply to buyers who bought a unit in a building that won't be built before next year, and who need mortgage insurance.

(Buildings often take four to five years to finish. If the buyer did not apply for mortgage insurance by June 21, and doesn't sign final mortgage documents by the end of the year, the new rules apply. Mortgages for preconstruction units aren't typically finalized until the building is done.)

"Builders are starting to feel it," said Oliver Baumeister von Bretten, a broker with Re/Max 2000 Realty Inc.

"They're offering incentives to the clients, as well as larger incentives to the realtors to bring clients to the front door."

This week, one of his clients who had bought a preconstruction condo last fall as an investment, and has already put 20 per cent down, said he wants to sell his contract to somebody else.

The investor lived through the real estate crash of 1989 and 1990 and has become concerned.

When Finance Minister Jim Flaherty announced the new mortgage insurance rules last month, he signalled that he's still concerned.

"We're seeing an acceleration of prices in Toronto," Mr. Flaherty said at the time.

"We have not seen a significant moderation of the market in Toronto, and it's important."

Sales of all types of homes fell in the Greater Toronto Area in June for the first time this year.

Sales were down 5.4 per cent from a year earlier, with downtown sales dropping while those in the surrounding areas held steady – a phenomenon that the real estate board attributes to the City of Toronto's land transfer tax.

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