

Housing Market: Toronto Condo Analysis Uncovers Spectre Of Irresponsible Lending

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A report from an equity research firm into the Toronto condo market raises serious questions about the possibility of irresponsible mortgage lending, and suggests that, with the market turning down, some investors could be risking their retirement nest-eggs by buying condos.

In an effort to determine what's behind the big run-up in condo prices in Toronto in recent years, market analysis firm **Veritas** sent "mystery shoppers" to two unnamed Toronto condo projects still under construction.

To their surprise, the researchers found that "no mortgage pre-approval was needed to buy a unit. ... Only a valid driver's licence was required to purchase a unit, along with a down payment cheque."

The report, obtained by The Huffington Post Canada, also noted: "At one sales centre, BMO was willing to lend half of the required 20 per cent down payment. Apparently, BMO is qualifying the prospective borrower on the full mortgage before approving the down-payment loan."

The report said this was "indicative that the industry is bending over backwards to make it easy to take the plunge and buy."

Most Expensive Houses For Sale In Canada



Veritas also noted that, at both condo projects, “sales staff stretched the truth (mightily).”

A salesman at one condo project tried to oversell the health of the city’s housing market by claiming that 70 per cent of Canada’s immigrants settle in Toronto. (The number is closer to 30 per cent.) At the other condo project, a saleswoman overestimated by 20 to 40 per cent how much condos in the area are renting for.

The report notes that not pre-approving buyers for mortgages at these condos may not be as risky for the developer or the bank as it sounds, because one of those condo buildings has already sold the 70 per cent or so of units needed to secure financing for the project, and the project is likely on stable footing. Sales staff at the other building said “financing is being provided by pension funds,” according to the report.

The study also found that buying a condo in current market conditions may be a bad investment.

Comparing rental and purchase prices at 64 Toronto condo buildings and 24 Vancouver buildings, the study determined that “investor owners are accepting returns well below, say, bank dividend yields, despite the illiquidity and operational risks of being a landlord.”

The Coolest, Craziest Condos Going Up In Toronto



The report notes that some people who have bought condos as an investment have borrowed money against their existing homes to fund the purchase — a move the report says could be unwise.

“With condo prices inherently more volatile than house prices, and a demand/supply imbalance in the works, we believe the retirement nest egg of many condo investors is at risk,” the report states.

While the study raises the spectre of a U.S.-style housing crash coming to Canada, fuelled by easy lending and irrational optimism about future house prices, other market observers say this is an unlikely scenario.

CIBC chief economist Benjamin Tal last week issued a report saying that Canada will be able to avoid a U.S.-style meltdown because many of the factors involved in the U.S. crash don’t exist in Canada.

Tal pointed out that the use of adjustable-rate mortgages (ARMs) that offered very low introductory interest rates and then jacked up rates several years into the mortgage helped sink many U.S. homeowners.

He said the U.S. market was pushed down by homeowners who had little or no equity in their homes, making them particularly vulnerable when prices fell.

The CIBC economist concluded that, while Canada's housing market is headed for a downturn, it won't be on the scale seen in the U.S.

But the **Veritas** report would suggest that there may be more Canadians with no equity in their homes than previously thought.

Overall home sales in Canada were down 15.1 per cent, year over year, in September. Prices are still rising nationwide, but Vancouver is seeing price declines and Toronto's house prices appear to be flattening.