

# Hot Toronto Neighbourhoods w/ Brian Persaud

Presented November 2010 Exclusively to the Members of REIN™



**Real Experts Inc. – Toronto Condo Myth Busting**

Tuesday, November 16, 2010



## What's behind the curtain in the Condo Market

- Are there too many condos being built?
- Is there too much speculation?
- What are the economic fundamentals behind the growth in prices?
- **Is there opportunity?**



## Agenda

- Do some Toronto Condo Market Myth busting
- Go through Economic Fundamentals behind the Condo market
- Outline potential opportunities that are arising from local economic activity



## Condo Market Myth Busting: Investors

- Do Investors make a large portion of condo purchasers?
- No Easy answer
  - There is no check box that purchasers use to notify us that they are investors
  - Projects will be finished 4-5 years out and purchasers situations may change



## Condo Market Myth Busting: Investors

- The facts we can measure:
  - Since 2009 20,000 condos have been registered
  - 1/3 have been listed for sale
  - 25% have entered the rental supply
  - Some are vacant
  - Average age of purchasers are 42+
  - 2/3 of buyers are men



## Condo Market Myth Busting: Investors

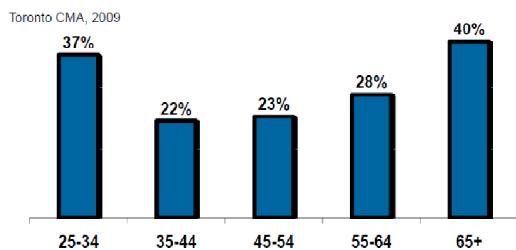
- Definition of INVESTOR is an evolving term
- Very different from what it meant back in 1989 (Think 5 Cab drivers pooling cash together)
- Very different from what it means in the States (Think Florida)



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## Shares of Buyers that have Purchased a Condo

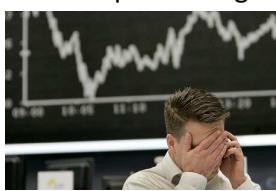


## Condo Market Myth Busting: Investors

- Bank scrutiny of investors today:
  - Must qualify for a mortgage today regardless even though mortgage is required in 4-5 years
  - Developer must pre-sell 80% of their revenue before construction financing is given



- Purchasers can only purchase 1 per development, and all purchasers go through a background check
- Investors must put at least 15% down (\$80k) in the first year after purchasing

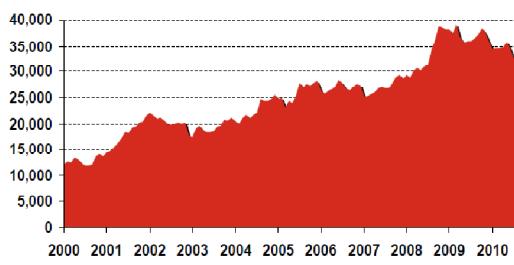


## Condo Market Myth busting: Investors

- Most end users are 25-34 and can't afford \$80,000 today
- Most condo investors are 40+ have lots of assets and at their highest income earning years
- Do Investors purchase condo's?
  - Yes
- Investors provide a benefit to real estate market ensuring product gets built



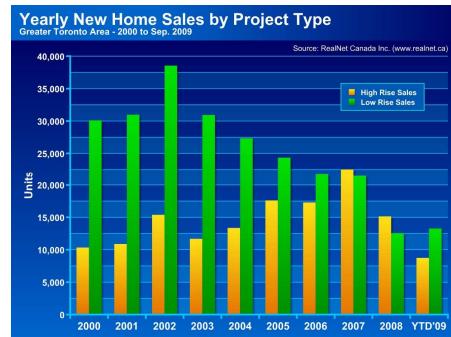
## Condo Market Myth: Too much Supply?



Source: CMHC

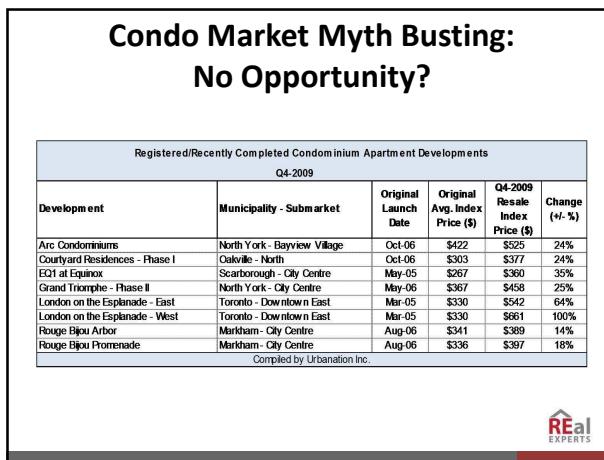
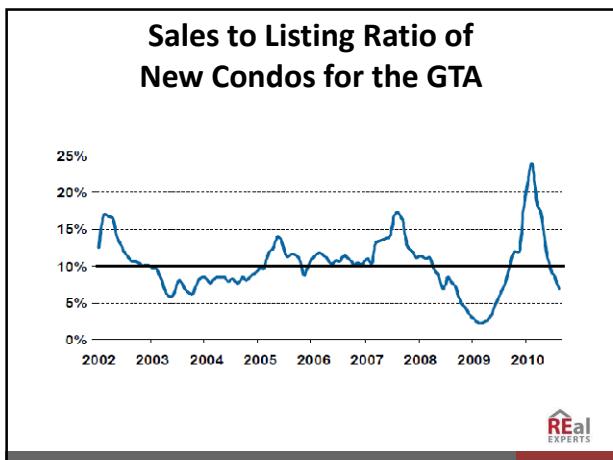
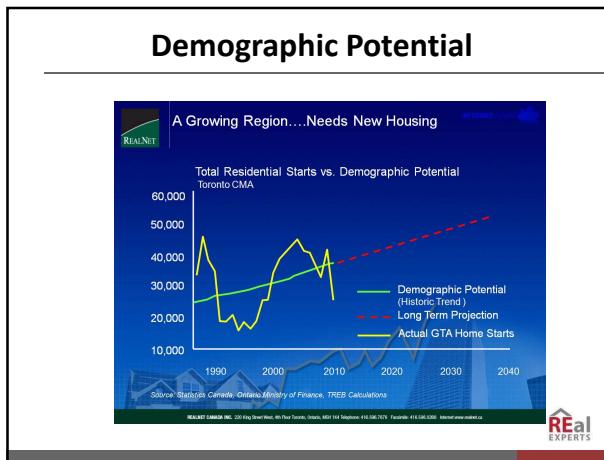
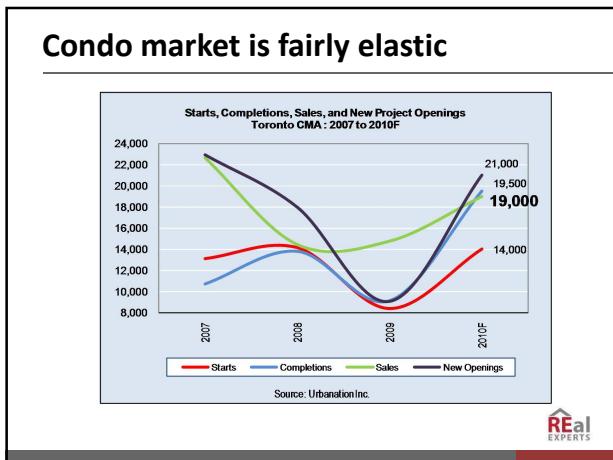
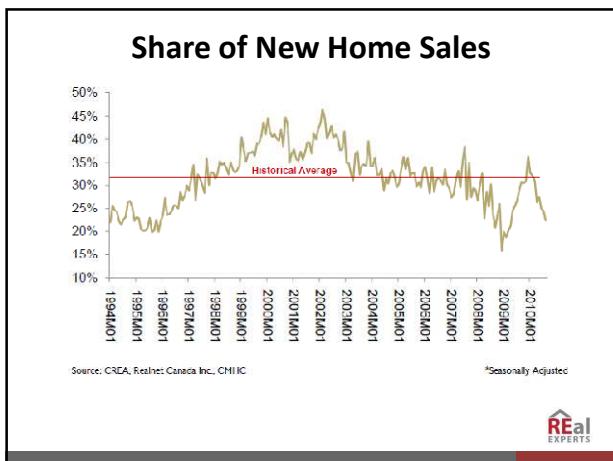


## Condo Market Myth: Too much Supply?



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## Case Study: Maple Leaf Square

- Total cost expected to be \$306,000
- Comparable unit sold prior to registration \$383,900
- Investor put \$72,000 spread over 4 years
- **108% Return**



## Case Study: Luna Studios @ City Place

- Sold at \$115,000 at a one day sale in 2007
- Total invested \$22k spread over 3 years
- Comps selling for over \$199,000
- Profit **381%**



## Hipsters Need a Place to Live

- Resale is holding steady at 6000 units per month
- Downtown condo market is out performing the Toronto Resale index (Think: Hipsters)
- New unsold product downtown is about \$150 psf more than resale: **BAD BUY AND STAY AWAY**



## Case Study: West Lake at the Humber Bay Shore

- Resale coming in at \$400-\$415 psf
- Onni selling presale (to be finished in 2014) at \$390 psf
- Reduces speculation risk by buying cheaper than resale and doing cash flow analysis today
- At capped rates and 35 am this property will cash flow



## In Conclusion

- Index prices of presale unsold will come down and incentives will come up
- Newly registered units will increase supply, will present a buying opportunity
- Market is really reactive and lots of measures to decrease speculation risk
- Affordability will drive prices up in the (905)
- Very hard to get cash flow (Think Risk Management)



## Keep in Touch

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