

Hot Toronto Neighbourhoods w/ Brian Persaud

Presented November 2010 Exclusively to the Members of REIN™



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

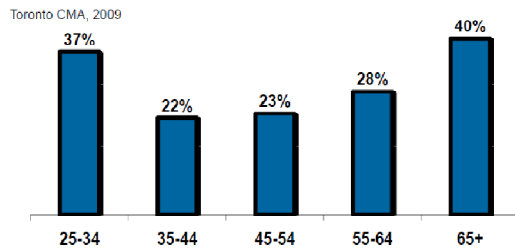
- Definition of INVESTOR is an evolving term
- Very different from what it meant back in 1989 (Think 5 Cab drivers pooling cash together)
- Very different from what it means in the States (Think Florida)



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Shares of Buyers that have Purchased a Condo



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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

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- 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



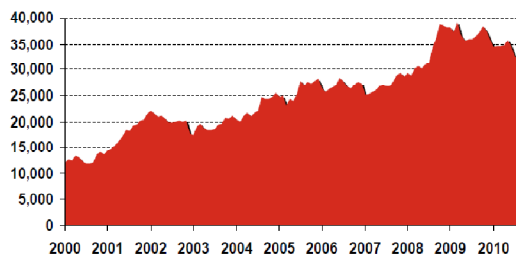
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Condo Market Myth busting: Investors

- 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

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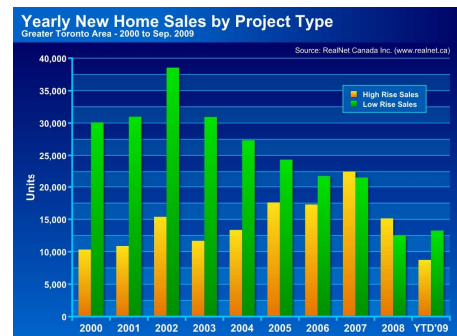
Condo Market Myth: Too much Supply?



Source: CMHC

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Condo Market Myth: Too much Supply?

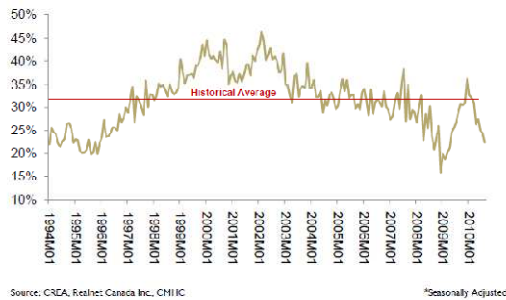


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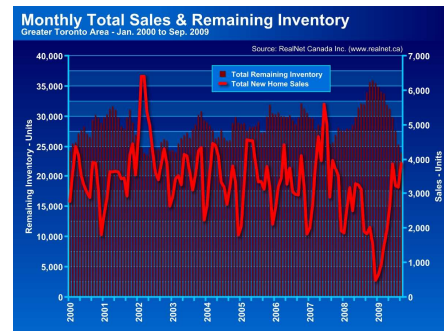
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Share of New Home Sales



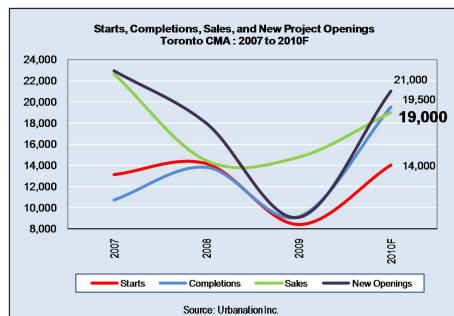
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Condo Market Myth: Too much Supply?



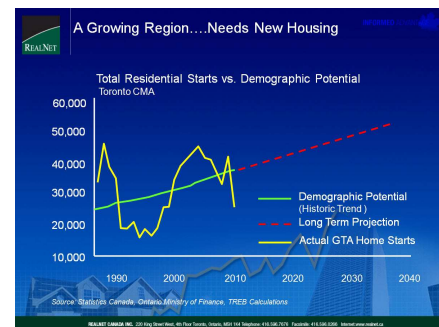
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Condo market is fairly elastic



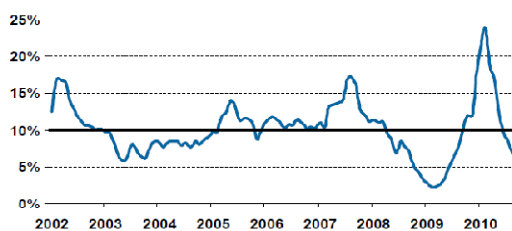
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Demographic Potential



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Sales to Listing Ratio of New Condos for the GTA



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Condo Market Myth Busting: No Opportunity?

Registered/Recently Completed Condominium Apartment Developments					
Q4-2009					
Development	Municipality - Submarket	Original Launch Date	Original Avg. Index Price (\$)	Q4-2009 Resale Index Price (\$)	Change (+/- %)
Arc Condominiums	North York - Bayview Village	Oct-06	\$422	\$525	24%
Courtyard Residences - Phase I	Oakville - North	Oct-06	\$303	\$377	24%
EQI at Equinox	Scarborough - City Centre	May-05	\$267	\$360	35%
Grand Triumphi - Phase II	North York - City Centre	May-06	\$367	\$458	25%
London on the Esplanade - East	Toronto - Downtown East	Mar-05	\$330	\$542	64%
London on the Esplanade - West	Toronto - Downtown East	Mar-05	\$330	\$661	100%
Rouge Bijou Arbor	Markham - City Centre	Aug-06	\$341	\$389	14%
Rouge Bijou Promenade	Markham - City Centre	Aug-06	\$336	\$397	18%

Compiled by Urbanation Inc.

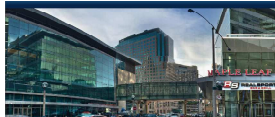
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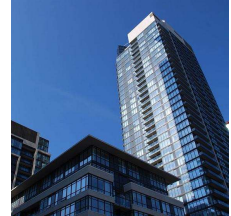
Case Study: Maple Leaf Square

- 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)



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