

Record number of condos to flood Toronto market in 2023

[Rachelle Younglai](#)



A crane stands between condo buildings in Toronto's Liberty Village neighbourhood in July, 2022. CARLOS OSORIO/Reuters

A record number of new condo units will be completed in Toronto in 2023, just as [skyrocketing mortgage rates](#) make it harder for investors to close on their properties.

Nearly 32,000 condos will hit the city and surrounding suburbs, according to data from condo research firm Urbanation Inc. That surpasses the previous high in 2020,

when 22,473 units were completed.

The raft of units are coming on the market after jumps in [interest rates](#) have ramped up borrowing costs and led to a drop in real estate sales and home prices.

Now, many buyers are having [problems qualifying for a mortgage](#), with five-year interest rates topping 5 per cent. As well, lenders are appraising units at lower prices, meaning that the buyer has to come up with extra funds to make up the difference between the smaller mortgage for a unit, based on the lower appraised price, and what the buyer agreed to pay.

Preconstruction condos, which have not yet been built, are mostly bought by investors who plan to rent their units and/or profit from a resale. To secure a preconstruction condo, a 20-per-cent down payment is required. After the condo has been built, the buyer is required to pay the remaining 80 per cent.

"Investors could be looking to exit before they have to close on the unit and they may face difficulties qualifying for a mortgage given what's happening with interest rates," Urbanation president Shaun Hildebrand said.

[Where could mortgage rates - fixed and variable - head in 2023?](#)

For Canadians on the brink of buying a home, rent-to-own can help seal the deal

This has led to an uptick in buyers trying to get out of their newly built condos by selling the right to buy their new unit, also known as an assignment sale.

"A lot of people are assigning because they can't qualify for a mortgage nowadays," said Brigitte Obregon, a broker with Re/Max Ultimate Realty who has sold preconstruction condos since 2009.

Higher mortgage payments have also made it less profitable for investors to own condos.

The average condo ownership cost in Toronto was \$3,506 a month as of the third quarter of 2022, according to Urbanation. In comparison, the [average monthly rent](#) in the region was \$2,733, which left the condo owner paying an average of \$773 out of pocket every month. That is up from an average shortfall of \$235 a month in the third quarter of 2021, \$196 in 2020 and \$17 in 2019, according to Urbanation.

Preconstruction condo sales in Toronto had been on the rise for years, driven by demand from investors and developers. But since home prices started to fall in 2022, it has become somewhat cheaper to buy an already built condo on the

resale market.

The average rate for a preconstruction condo was \$1,427 a square foot as of the third quarter of 2022, according to Urbanation. In comparison, the average price for a condo on the resale market was \$891 a square foot.

"People are saying 'Okay, now it seems like I can get the better deals on the resale market, or the preconstruction assignment market,'" said Vicky Huang, chief executive of Bay Street Group, a real estate brokerage that works with Chinese buyers in the resale and preconstruction housing market.

The typical price of a home across Canada is down 10 per cent from peak prices in February, 2022. In the preconstruction market, investors are not seeing the value of their properties grow as quickly as it has in the past. That is expected to further contribute to the slowdown in preconstruction sales in 2023.

Activity had already dropped significantly, and by the third quarter of 2022, preconstruction sales hit their lowest level since the 2008-09 global financial crisis. Dozens of projects had no sales during the quarter, according to Urbanation.

**Sign up for the Top Business Headlines:
Evening Edition Newsletter**

An informative summary of the day's top business headlines, features and columns.