Buyers, sellers brace for an unprecedented spring real estate season in Toronto region

By Tess Kalinowski
April 14, 2017 – *The Toronto Star*

Pity the poor house hunter seeking shelter in a spring real estate season like none in memory in the Toronto Region.

Spring is traditionally the hottest season when it comes to home sales. But this year's soaring prices and frenzied bidding wars come with an additional layer of anxiety as governments, realtors and consumers grapple with how to best respond to high-level warnings that a Toronto housing bubble is about to pop.

Buyers

Buyers can expect the mad competition for homes to continue with most selling for over-asking prices amid multiple offers, realtors say.

"It's going to be the busiest spring we've ever seen and, unless there's a significant increase in the number of listings and a significant decrease in the number of buyers, we're not going to see things change," Andrew Harrild of Condos.ca says.

He discourages buyers from over-extending their finances, but Harrild says he lets his clients know they have to be prepared to do what it takes to win a bidding war or they will be making offers indefinitely.

Most buyers will make at least five offers before they are successful — but 19 or 20 offers isn't unusual, Tarik Gidamy of TheRedPin says.

He predicts there is more disappointment and buyer frustration ahead this spring.

"The consumers' mentality is going to continue, if not get wilder, because the spring is typically when inventory comes out of the woodwork. I think it's going to be a big matchup of supply and demand and increased tension," Gidamy says.

"On the front lines, a majority of my agents are losing offers every night. Buyers are getting frustrated every night. Home sellers are clapping and popping champagne every night," he said.

If a buyer needs to sit back for a month and watch how regulators respond to the overheated market, that probably won't make any difference in their ability to buy, says Desmond Brown, a Beaches-area Royal LePage agent.

But delaying the purchase a year is another matter, he recently told clients relocating from Australia. They wanted to rent. Brown encouraged them to buy.

"If you wait a year, you'll never get into the market," he told them.

That is because the average price of all homes in the Toronto area — including condos, townhomes, semi-detached and detached houses — was $916,567 last month — $228,556 higher than a year ago.

That is a 33-per-cent year-over-year increase, according to statistics from the Toronto Real Estate Board.

Sellers

The Toronto area remains a sellers' market, but the board did report an increase in re-sale homes listed last month.

Listings rose 62 per cent year-over-year the first week of April — the third consecutive week that resale home listings were up, according to Leslieville's Realosophy brokerage.

"Definitely a little frightening," says Realosophy's president John Pasalis, who thinks that government talk about cooling the market may be prompting homeowners to sell.

Even in the traditionally hot spring market, that's a sharp increase, he says.

"In a busy spring market we might get a total of 11,000 freehold homes listed. If listings continue at the current rate, we might have 16,000 freehold listings by the end of April," he says. "But who knows if they'll keep up."

In the Markham-Stouffville area, Re/Max agent Peter Kiriazopoulos says the recent uptick in homes may already be having an impact on sellers.

For months, most Toronto-area real estate listings have encouraged competition among buyers by providing a specific date on which sellers will consider offers.

But when there are a number of similar properties available in the same area, there is no point in sellers holding off buyers to an offer date.

Single-family detached houses are popular in his area, Kiriazopoulos says. But in the last 10 to 14 days, some homes haven't been attracting multiple offers. Instead of selling at the asking price, sellers are relisting at a higher price, he said.

Regulators

Many realtors say that Premier Kathleen Wynne's plan to target real estate speculators to cool the market is the right move.

But the Liberal government acknowledges that won't provide any immediate relief to the bidding wars and bully offers that have thwarted consumers' ownership ambitions.

Earlier this week, Bank of Canada Governor Stephen Poloz warned that the Toronto area housing market isn't sustainable. Moody's Investment Services suggested that the Canadian housing market invites comparisons to the U.S. housing crisis of a decade ago.

On Tuesday, federal Finance Minister Bill Morneau will discuss the situation with his provincial counterpart Charles Sousa and Toronto Mayor John Tory. They will likely talk about a foreign buyers' tax and a vacant home tax that the British Columbia government and Vancouver used to stem housing prices in that city.

While there has been a lot of concern about foreign investment in the Toronto market, Pasalis thinks a lot of the speculation here is actually a result of ordinary people wanting a piece of the action.

"People are buying 100 per cent on debt. They are refinancing their homes. They don't care if they are cash-flow negative. People just think they're going to make money. Everybody wants another property. I'm talking friends, aunts," he says.

Gidamy agrees the government needs to crack down on speculators. But he also thinks the province should re-examine some of the land-use policies restricting where developers can build and the city should hasten approvals to encourage construction of more purpose-built rentals.

Meantime, he says, "Money is cheap so people give the money to their kids or buy some pre-construction investments."

Andrea Jolly, broker at TheRedPin Mortgage, doesn't expect interest rates to rise until late in the year, and those would be small, incremental increases.

While last year's tighter mortgage stress testing may have limited some first-time buyers, "anecdotally, their parents are giving them money, they're getting co-signers, they're living with others. They're actually getting more creative," she says.

Condo specialist Harrild agrees that rates would need to rise substantially — at least a couple of percentage points — to tamp down consumer buying.

“If you go from getting a 5-year fixed-rate mortgage right now for 2.49 per cent and it goes up half a point overnight to 2.99 per cent that’s still a fantastic rate. I just don’t see interest rates climbing quick enough,” he says.

Harrild is among those who believe that the number of foreign transactions is closer to 20 per cent than the 4.9 per cent published by the Toronto Real Estate Board early this year.

He doesn’t see a downside in taxing foreign transactions as Vancouver did last year.

“I’m an immigrant and I’ve got no problem with people coming here and investing and contributing to the economy. What I do have a problem with is people investing their money here purely from a speculation standpoint. They’re not contributing, they’re just inflating pricing for everyone else,” he says.

“If you’re simply here to dump money and have your unit sitting empty for the next five years, that’s creating a huge problem,” Harrild says.

Brown, a former reporter, isn’t convinced. He says the best news he’s heard lately is Ottawa’s commitment to a national housing database that would more thoroughly delve into buyer and transaction profiles, including demographics on foreign ownership.

At this point, he says, he doesn’t know the level of foreign investment in Toronto.

He listed a detached backsplit in the once-modest Yonge St. and Sheppard Ave. neighbourhood. It had belonged to the same family for more than 60 years and it attracted 16 offers.

“All of the bidders were either of Chinese, Asian or Iranian descent. I have no idea if they were Canadian citizens or foreigners. All I know is that the house sold for $400,000 over asking,” he said.

That kind of scenario is a symptom of Toronto “becoming the international city we’re meant to be” rather than a housing bubble, Harrild says.

“Prices are a reflection of that. That being said, do I think another 20-per-cent increase in the next six months is healthy? No I don’t,” he says.

But, he adds, “I don’t think the bottom’s going to fall out of the market. There’s too much demand for that from real people with real money. It’s not all speculation.”