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Amid condo glut, Toronto developers luring buyers with fat discounts

By Tara Perkins

As inventory levels rise, incentives become less gimmicky

Toronto condo developers are ramping up efforts to attract buyers, offering their biggest incentives yet amid a market glut.

Inventory levels are creeping up in Canada's most populous city, and a large number of new towers are still projected to come on stream next year. In a bid to make their unfinished projects stand out, the bells and whistles that developers are offering to buyers have become more valuable, industry players say. The incentives are less gimmicky than those that were seen when the market was hotter, and instead amount to a more sizable discount on the purchase price.

"We're seeing a larger number of incentives and their absolute value has increased relative to past offerings," says Mimi Ng, vice-president of marketing at Menkes Developments Ltd. "The market is definitely in a much more competitive state than last year."

There are some 300-odd new condominium projects that are actively selling units in the Greater Toronto Area, she adds. "That's a lot of developers with a lot of product that's still sitting on their books that they have to sell."

Sales of these units are being watched closely in Montreal, where real estate players are increasingly concerned a similar glut is forming.

In Toronto, sales of new condos during the first nine months of the year came in at 10,449 units, down 21.5 per cent from the average level of the past decade and 27.4 per cent from the 14,399 units sold during the first nine months of 2012, according to data from RealNet Canada Inc. There were 20,726 sales during the same period in 2011.

The level of inventory on the market is now around 23,153, up 13 per cent from 20,553 a year ago.

"Buyers are cautious about the condo market and almost every building is either offering aggressive incentives, such as one-year free maintenance, or special credits and upgrades," says Oliver Baumeister von Bretten, a broker who specializes in the condo market.

Developers didn't have to work nearly as hard to move product not so long ago, and have been ramping up their incentive offerings in the period since. "In the spring of last year the market was a bit frothy and we saw a lot more undisciplined buying activity happening, and a lot of that was investor driven," Ms. Ng says.

Condo prices fell about 1.5 per cent in the past year to around $433,000, according to the latest RealNet price index. Some economists say that when you take the incentives into account, prices are down more significantly. Mr. Von Bretten estimates that many of the incentives out there amount to a discount of about 11/2 to 3 per cent of the purchase price.

At its Fabrik Condos project in the downtown entertainment district, which is scheduled to start construction in the new year and is currently about 60 per cent sold, Menkes has started offering buyers two years worth of free maintenance, two years with no property taxes, and cash discounts of $10,000 on studio and one-bedroom units and $16,000 on larger units.

Zach Burnett, project manager at developer Burnac Holdings Ltd., says the incentives being offered at its South Hill on Madison project are worth about $18,000 to more than $30,000, while prices range from about $250,000 to more than $1-million. The incentives come in the form of covered closing costs, with Burnac paying for things such as the land transfer tax, development fees and hydro metering costs. "Definitely there's more value in this incentive than what we've offered in the past," says Mr. Burnett.

Past programs including things such as upgraded kitchens for amateur chefs, a package geared toward women that included nicer closets and heated bathroom floors, and a technology package for TV buffs.

Mr. Beaumeister von Bretten says another trend is more flexibility on the deposits that buyers must put down for new condos. Park Towers at IQ Condominiums in Etobicoke is allowing buyers to pay their deposits in small increments , and is offering $2,000 cash back on closing.

Meanwhile, industry watchers are increasingly concerned that too many condos are being built in Montreal. Brian Hurley, CEO of Genworth MI Canada Inc., the country's second-largest mortgage insurer, told analysts on a conference call last week there are "emerging dynamics around condos in Montreal, with concerns of oversupply in some areas." and the majority of Genworth's mortgage insurance delinquencies are happening in Quebec, where employment growth has been modest and the housing market soft.

Montreal's condo market is "somewhat slower than it was last year and there is a lot more product coming out on the market," says Riz Dhanji, vice-president of sales and marketing at developer Canderel. But his firm is still looking at opportunities there.

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