

Caviar condos set to flood Toronto market

Reuters

Tags: **Real Estate**

9:07 AM, E.T. | May 14, 2012

Real Estate

Five months after buying one of Toronto's new luxury hotel condominiums, Oliver Baumeister is girding for a glut of suites like his to hit the market as the biggest names in the hotel business open hundreds of units in Canada's largest city.

Baumeister, himself a real estate agent, is in no rush to sell. When Toronto's untested market for five-star condo living absorbs the surplus - say by 2016 - he intends to offload his sky-high unit for a tidy 20-percent profit, and look for his next Canadian real estate investment.

"A bunch of it will sit for a while and it will take time to sell," said Baumeister, who has been buying Toronto condominiums with his brother for the past four years.

"But we bought it with the belief that the Toronto hotel condo market definitely has a future. When we sell, hopefully ... we'll see about a 20-percent profit."

The model of ultra-fine condos attached to luxury hotels isn't new - cities like Hong Kong and New York are full of them.

But Toronto, a relatively small city with no five-star hotel condominiums a year ago, is coming to the game late but with a vengeance.

By the end of this summer Toronto will have four such projects, as Four Seasons, Ritz Carlton, Trump and Shangri-La open massive towers in a city where a red-hot market for all types of housing has brought rising concern about a real estate bubble.

The granite-and-glass towers, including two of Canada's tallest residential buildings, are opening in quick succession, adding hundreds of hotel rooms and more than a thousand condominiums just as Canadian housing hype hits a fever pitch.

Signs of success are mixed. None of the four projects, whose condos cost from just under \$1 million to \$28 million, has sold out, and the push by developers to sell their remaining units before a resale market kicks in has the feel of a ticking time bomb.

"I think any developer has concerns about that," said Howard Tikka, director of marketing Talon International Development Inc, which is developing the Trump property.

"If you have units left to sell, and people are taking them to market to resell, there is just not a whole lot you can do about it."

With the Ritz Carlton already open and the other three not-fully-sold projects due to hit the market this summer, the developers will compete with sellers of their own luxury condos as speculators and investors try to cash in.

While all four projects boast paper profits for early investors, the simultaneous sale of dozens - perhaps hundreds - of exquisite suites may prove too much of a good thing.

"I think on the luxury side, the market has already peaked," said Don Campbell, president of the Real Estate Investment Network, an author who invests his own money and advises others about buying into Canada's housing market.

Campbell said six groups identified the same hole in Toronto's luxury market about 10 years ago. Four projects went ahead, and all of them are coming on line at the same time.

TROUBLES AT TRUMP

The Trump project, a 65-story paragon of glitz with a "champagne and caviar" theme, appears the most troubled. Plagued by bad press, construction delays, disgruntled buyers and a hybrid model of residences and pooled hotel condos, the project has the largest proportion of unsold units despite being the first to open its sales office, in 2004.

Talon said 80 percent of the tower's 379 units have sold, powered by the hotel condos, currently priced from \$967,000. But 40 percent of the residential condos, priced between \$2.3 million and \$6.3 million, remain unsold.

It said Trump has the most left to sell because it has twice the number of units as competitors at the Four Seasons and Ritz Carlton, and focused first on selling its hotel rooms.

The Ritz Carlton, Four Seasons and Shangri-La projects have kept their condo and hotel rooms separate. The condo owners have access to hotel amenities but no direct stake in its operation.

Trump, on the other hand, is trying to sell all its hotel rooms to private investors as condos. Owners can live in the suites, or put the rooms into a rental pool and take a cut of income from the hotel guests staying there.

The business structure means buyers of the pooled hotel condo units are subject to commercial tax rates rather than lower residential rates, and the bar for financing is higher.

"I called every major lender regarding Trump, and the only one I could find that was willing to finance was HSBC," said Callum Ross mortgage consultant Jason Friesen.

"There were some units that had \$20,000 (annual) property taxes for an \$800,000, or 1,500 square foot, unit because it was zoned commercial. So lenders wouldn't touch it."

Real estate lawyer Bob Aaron, who represents "a handful" of disgruntled Trump buyers, said some are trying to get out of their contract or walking away from \$250,000 down payments.

"The monthly costs are too high, or they realized too late that they had overpaid, or can't finance it, or didn't realize they were getting into a business venture superimposed on property ownership," he said.

"They had very smooth sophisticated marketing, and I think buyers were dazzled by being partners with Donald Trump."

The American property mogul has licensed the Trump name to the project but has no part in owning or operating the tower.

FLIPPERS AND FOREIGN BUYERS

The debate about who is buying them dogs Toronto's condo boom. There are no figures for foreign buyers in Canada, which is seen as a financial safe haven amid global woes, but talk of affluent Asian, European and Middle Eastern investors abounds.

Janice Fox, director of sales at the Four Seasons, estimates 30 to 40 percent of buyers there have been foreign, but she said they intend to live in the units, at least part of the year.

Some 90 percent of the Four Seasons 210 condos have been sold, including one last year for \$28 million, the highest price ever paid for a Canadian condominium. That buyer is foreign, but the family intends to move to Toronto, Fox said.

The resale market may be a gold mine for early buyers, as some prices have doubled since the first investors signed on in 2004 or 2007.

"There's been a big gain in price. There's probably a small group who bought in 2007 who has had a massive gain and want to cash out on that," said Michael Braun, marketing manager for Shangri-La developer Westbank Corp.

With more than 50 of 393 units remaining to be sold before August, when contracts close and buyers can start re-selling, Braun says it could take until early 2014 before Shangri-La sells all of its units.

Realtors estimate between 10 percent and 20 percent of pre-construction sales are made by investors who intend to flip the units as soon as the deals close.

The Ritz Carlton, open since mid-2011, is a cautionary tale of the risk of resale. More than 90 percent of its 159 units have been sold - but nearly two dozen are back on the resale market, diluting the sales power of the developer.

"I think the values have been hurt at the Ritz, where you've had some powers of sale," said real estate agent Brian Persaud, referring to forced sales due to mortgage default. "That's going to harm the value, definitely."

As the summer openings of the three other projects approach, developers and investors seem to have one eye on the clock and one eye on historically low interest rates, desperate to sell before the talk of a bursting Toronto condo bubble comes true.

"There has to be a correction - but hopefully not within a year ... it is scary," said a Toronto banker who bought one of the Shangri-La luxury units in 2007 and hopes to resell at a 15-percent profit as soon as he can.

"Obviously there is going to be a spiral-down effect (when all the units hit the market) but that is to be expected," said the banker, who bought the unit with his parents and declined to be named to protect their privacy. "At worst we'll break even."

Real estate agent Persaud is more sanguine. He believes all the luxury condos will be sold, especially once resale values stabilize and buyers can get a first-hand look at the finished five-star product.

"I don't think they'll be vacant forever," he said. "Eventually the market will catch up to it, but there is going to be blood in the streets for a while."

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David Collard

May 15, 2012
9:03AM



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The problem of foreign property buying became so bad, Australia banned them, but I don't know the exact details. You can't put "flippers" in jail if they're playing the system under the radar. The laws need to be changed. Toronto has more condos in development than any other city in north america right now. My problem is from an architectural one since they all lack world class design and will in time not contribute to the beauty of the downtown core.

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Ken Lawson

May 14, 2012
12:20PM



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We must put restrictions on off shore buyers and put this inside flippers in jail for income tax evasion

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