Surprises At The Real Estate Market

MAXIM BAGINSKIY

BROKER OF RECORD/INVESTMENT ADVISOR

EMAIL: contact@newGTAcondos.com

PHONE: (416) 832-8343, FAX: (416) 981-7710

www.newGTAcondos.com

Right At Home Realty Investments Group Brokerage Head Office: 895 Don Mills Rd., 206B-2, Toronto, ON M3C 1W3. Phone: 647-288-9422.

Presentation centre: 10376 Yonge St., Unit 306, Richmond Hill, ON L4C3B8. Phone: 416-832-8343

The first eight months of 2020 are over, which brought us many unexpected surprises, the main of which was the Coronavirus epidemic.

Toronto's real estate market went through the difficult spring months without much loss. In the spring, the market activity was critically low, but in the first summer months the activity recovered with lightning speed and the market returned to its normal state.

After the spring quarantine, customers literally poured into the market, so we saw an unprecedentedly hot summer. Which was not typical for the traditionally calm housing market in the summer months.

The statistics of the Toronto real estate council show the following data:

- **The number of real estate objects for sale increased by 24.7% compared to 2019.**
- **Sales were 29.5% more than last year**
- **The average selling price in the GTA has increased by 16.9% over the year.**
- **Another important factor is that we are clearly in an upward trend and only in the last month the average selling price has increased by 5.5%.**

I have said many times that the statistics of the Toronto Real Estate Board (TREB) are very average and only show the general trend of the market. When buying, especially investment real estate, one should consider various types of real estate and the area, and often the microdistrict where the real estate is located. Here the statistics may differ significantly from the average.
What real estate segments have shown the greatest growth in recent years? Here I would single out the three segments that jumped the most in price.

Firstly,

• Detached houses and townhouses located in the lower and middle price segment. Here it must be borne in mind that in each area this segment has its own cost. In some areas it is five hundred or six hundred thousand dollars, and in some it is one and a half million. Over the past 6 months, this segment has risen in price by more than 10%.

Secondly,

• Condominiums at the initial stage of construction are in the range of costs up to eight hundred thousand dollars. Here, too, the number of people willing to buy apartments is several times higher than the supply, and in the last 6 months alone, the increase was more than 10%.

And finaly,

• Suburban real estate designed for recreation. These are both cottages and condominiums located in various kinds of resorts. In this segment of real estate, we saw a very strong jump in prices in the traditionally favorite vacation spot of Toronto residents - Muskoka. Here, in the last 6 months alone, prices have increased by more than 15%.

In the expensive segment of real estate prices have also increased slightly, but not significantly relative to the growth of the lower and middle price segments. In general, the situation resembles the beginning of 2017, when prices went up literally every day.

I doubt that this trend will continue, and most likely we will have a very hot autumn.

The market is driven by several factors at once:

- Record low lending rates. Morgiji are now issued at a rate of less than 2%, and it has become much easier to obtain it than a year ago.
- A large number of buyers who have money on hand for a down payment. These are the people who were ready to buy back in 2018, but were forced to postpone the purchase due to difficulties in obtaining mortgages, introduced by the government in order to cool the real estate market.
- In addition, these are investors who have increased their capital in the securities market, having caught a slide of a fall and a sharp rise in the stock market. At the moment, the securities market has become very dangerous due to the upcoming elections in the United States and the extremely unstable political situation in the world. Accordingly, withdrawing assets from the securities market, they began to buy up the most liquid asset - real estate.

All this taken together has led to the fact that real estate prices are again rising strongly. Only now the situation is fundamentally different from the situation in 2017, when the government had all the trump cards in its hands to regulate the real estate market.

Let's compare what leverage tactics we had in 2017 and which we have now.

2017 - high lending rates, the ability to complicate obtaining lending by introducing a stress test and thereby reducing the number of potential buyers, the ability to remove foreign buyers from the market by introducing a 15% tax for non-residents. All this was done in April 2017.

What do we have now:

Very low lending rates, practically no stress test, the tax for foreigners already exists. That is, the state does not have a single serious trump card capable of cooling the market and there is simply no way to change anything. In addition, now real estate is the locomotive of the economy, the construction sector, together with related industries, is millions of jobs, which the government cannot in any way lose in the current economic situation.

As a result, the situation is completely out of control, there are almost no control levers and the market in the near future will develop according to its own laws of supply and demand balance, without outside interference.

A small factor that can slightly influence the market, but, in my opinion, will not bring any significant results, is that the authorities continue to research in the field of taxes. Let me remind you that not so long ago a proposal was made to introduce a capital gain tax on the sale of real estate used as a principal residence, as well as an increase in this tax on investment real estate.

So far, this is only research, but given the 10-fold increase due to the coronavirus pandemic, the total debt of Canada and the continuation of payments to people temporarily unemployed, in my opinion, an increase in property taxes in the near future is very likely.

This has already happened in Canadian history. Capital gain tax was first introduced in 1972. The tax was then imposed on 50% of the increase in the value of real estate, after 16 years in 1988, 67% of the increase in value was already taxed on capital gain, and in 1990 - 75%.

Taxation of 75% of real estate gains lasted until 2000, after which the rate was lowered and for the last 20 years 50% of the gains in value have been taxed. Now the government is seriously thinking about raising this rate.

Again, the difference is not so great that it would significantly affect the real estate market as a whole. So I do not regard this factor as a serious tool for managing the real estate market.

And, in my opinion, the significant rise in property prices in the autumn months will continue. During the autumn, we are expecting a number of very interesting projects at once on the market of new buildings.

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