8 Mind-Blowing Numbers From Toronto's Real Estate Market

Description

Is Canada's real estate market a bubble? A number of groups are sounding the alarm. Over the past few months, several research organizations, including Fitch, **Morningstar, Inc.**, and the International Monetary Fund have published reports warning about skyrocketing property valuations across the country.

Nowhere is a possible bubble more apparent than in Toronto, the hottest real estate market in Canada. After posting some huge price gains over the past few years, the city's housing industry has produced some truly eye-popping statistics. Here are eight mind-blowing numbers from Hogtown.

1. $880,433

Toronto is on the verge of becoming the second Canadian city where the average price of a detached home exceeds $1 million. July data from the Toronto Real Estate Board, or TREB, revealed that the average selling price of a detached house downtown was $880,433, up 11% from the same period a year earlier.

2. 130 properties under construction

Toronto has more skyscrapers under construction than any other city in North America. According to Emporis, a website that compiles building data, there are 130 high-rise projects underway in Toronto. In comparison, New York City has only 91 high-rise buildings under construction.

3. 39,000 realtors

The housing boom has not only caused real estate prices to skyrocket, but it has also resulted in an unprecedented number of realtors. According to the TREB, the number of realtors in the city has reached more than 39,000 — up from about 20,000 a decade ago. That's one realtor for every 140 people in the Greater Toronto Area.

4. 7.9 times income

Housing prices have surged ahead of income. Over the past 17 years, incomes have risen at a 2.8% compounded annual rate, while house prices have gone up 5.8%. Put another way, house prices have more than doubled over that period, while incomes are up by just a bit more than half.

Back in 1997, the average house price in Toronto of $211,307 was about 4.9 times the median gross household income of $43,560. Today, the average price of $550,725 puts houses at about 7.9 times the average household income, which is $69,934.

5. 43% of income

To buy a house today, a Toronto resident would have spend about 43% of their gross income on housing assuming current average real estate prices, a five-year term, mortgage rates amortized over 25 years, and a 5% down payment. That's well within historical averages and below the 50% figure breached during Toronto's 1989 real estate bubble.

However, even a small rise in interest rates could push leveraged buyers over the edge. If mortgage rates were to rise just 2%, the typical new home buyer would have to dedicate 53% of their gross income to housing. That could push thousands of borrowers into default.

6. 37 times rental income

The cost of owning a house in Toronto is also looking stretched relative to renting. According to the most recent numbers from the International Monetary Fund, Toronto real estate prices are valued at 37 times annual rental revenue. Historically, Toronto's housing market has traded between 15 and 20 times rental income.

These valuations are raising alarm bells amongst institutional investors. Thomas Schwartz, President and CEO of **Canadian Apartment Properties REIT** (TSX: CAR.UN) told investors earlier this month, "I think it's driven primarily by the fact there's a lot of capital chasing apartments, a lot of it is private capital. People are using shorter term funding. I'm not sure they're looking at the CapEx in quite the same way we do. And again, at this point, I'm just not comfortable making the deals that are being made out there."

7. 3.7% cap rate

In late 2013, the *Financial Post* reported Toronto's upscale Bayview Village shopping mall fetched $500 million and sold for a capitalization rate said to be in the 3.6% to 3.7% range. The cap rate — the rate of return based on what a property is expected to generate in rental income — is considered to be near a record low. According to Colliers International, cap rates in the Greater Toronto Area are approaching record lows across all property types.

These valuations are encouraging smart-money investors to search elsewhere for deals. **H&R Real Estate Investment Trust** (TSX: HR.UN), one of Canada's largest REITs, has been snapping up U.S. properties where cap rates are less rich. In June, the firm announced one of its largest deals yet agreeing to participate as a 50% joint venture in developing a landmark luxury residential rental development in Long Island City, New York.

8. 17% investor owned

Earlier this month, the Canada Mortgage and Housing Corporation released a snapshot of the condo markets in Toronto and Vancouver and found that only 17% of units are investor-owned. However, the survey drew criticism for leaving out any measure of foreign investors living abroad. According to *The Globe and Mail*, 40% of Toronto condos are owned by investors. Other private sector estimates put this figure even higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

Category

1. Investing

Date
2025/07/05
Date Created
2014/08/21
Author
rbaillieul