Real estate investing frenzy rips through Canadian housing market

The surge in interest from investors, who provide the bulk of the country's rental units, is feeding record levels of home construction despite concerns about the types of units being built

RACHELLE YOUNGLAI REAL ESTATE REPORTER

PUBLISHED YESTERDAY
UPDATED 48 MINUTES AGO

Michael Sarracini, who runs a property development company and a real estate investing education company, at his Guelph, Ont. home.

FRED LUM/THE GLOBE AND MAIL

When Michael Sarracini first started investing in real estate in 2000, he said people told him he was crazy. He was warned that he could be stuck with huge mortgage costs if interest rates hit double digits like they did in the 1980s. He was told he could end up defaulting on loan payments and lose his property to foreclosure.

"They would always reference some obscure moment in the 1980s where interest rates went up for 24 months," he said. "Real estate investing was not common."

At the time, Mr. Sarracini was a student at the University of Guelph. He used his student loan for a down payment and together with a friend and his dad as co-signer, they bought a house in Guelph for about $110,000. They added bedrooms in the basement and rented them out to fellow students. The rent covered their mortgage payments and other expenses, marking the start of Mr. Sarracini's real estate investing career.

Canada's housing market could crash or soar, but there's a more likely third option that nobody is talking about

By the time he was 25, he owned more than 30 rental properties in Guelph – and was earning enough rental income to retire, he said. By the time he was 30, he had parlayed his experience into a full-time job teaching others how to invest in real estate.

Now 41, Mr. Sarracini runs a property development company and a real estate investing education company. He is part of a growing group of Canadians who see real estate as the best investment to secure their financial future. Bank of Canada data shows investor buying doubled from the second quarter of 2020 to the same period in 2021. Investors now account for one-fifth of all residential buyers in Canada and their purchases have increased across the country, especially in relatively cheaper areas such as Ottawa, Gatineau, Halifax and Winnipeg.

"We have never seen so many new investors reach out," said Simeon Papailias, senior partner with REC Canada, which specializes in condo sales. "It is off the charts. Everyone is seeing the market go up by 30 per cent." Mr. Papailias said the demand for every new condo project is "nuts," with thousands of requests to purchase.

The surge in interest from investors, who provide the bulk of the country's rental units, is feeding record levels of home construction and ramping up demand for real estate. But the new buyers are also contributing to increases in home prices, by competing with would-be owners at a time when there's an acute shortage of properties for sale. The rise in demand is influencing what's being built as well, with developers building more condos and smaller units – appealing for investors because the purchase price is generally cheaper than a house or an apartment building. It may cause other problems too, in the long term, for the new class of buyers. With interest rates likely to rise in the near future, purchasers who shoulder a high level of debt to finance their winning bid may find that their investments cost more than they expected.

Since the turn of this century, the average home price has risen over 300 per cent. The sharpest increases have happened during the pandemic and have hit less populated cities and suburbs the hardest: The typical price of a home across the country is 46 per cent more expensive than it was two years ago.

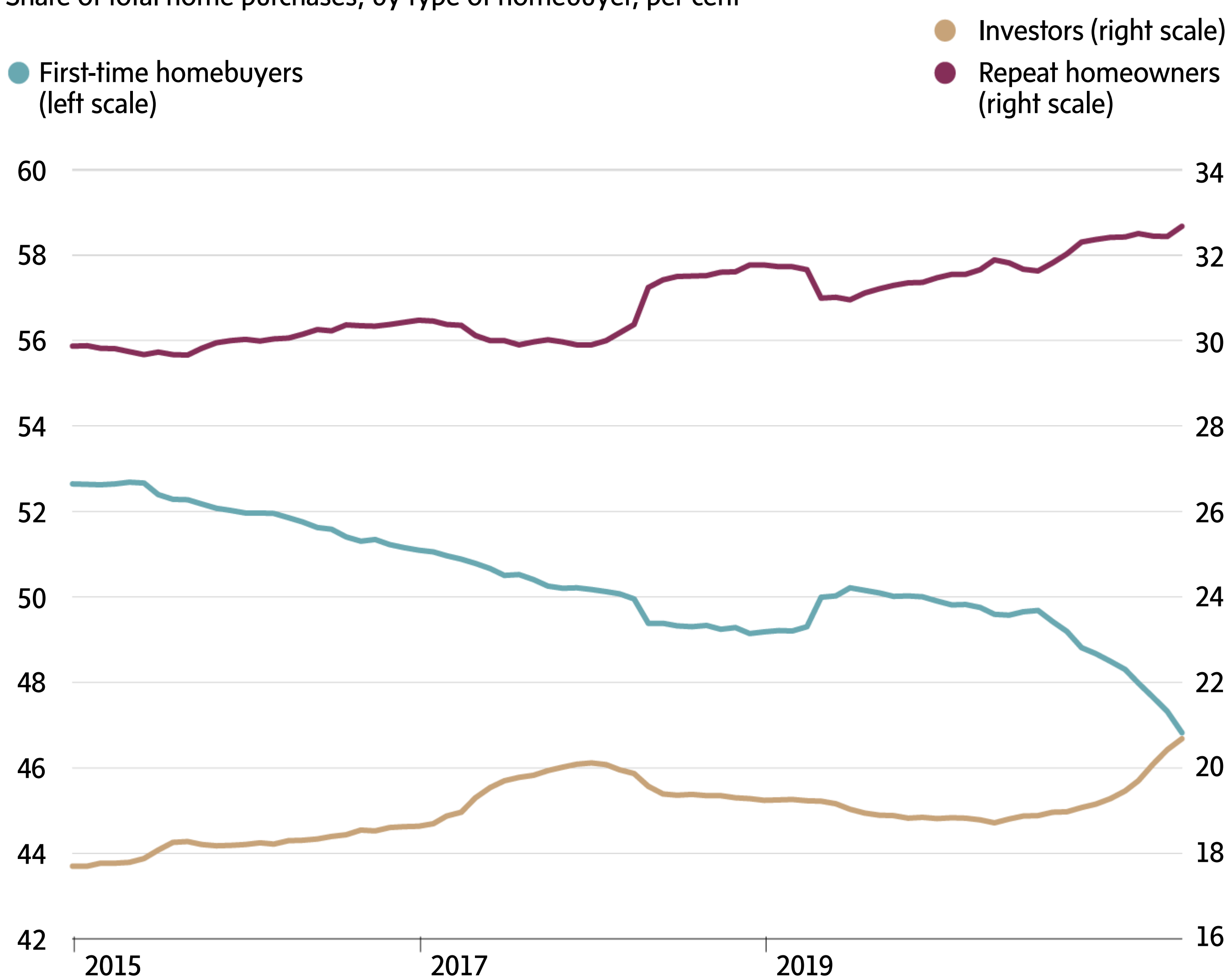
When Sarracini was a student at the University of Guelph, he used his student loan for a down payment and together with a friend and his dad as co-signer, bought a house in Guelph for about $110,000.
FRED LUM/THE GLOBE AND MAIL

The surge in values has elevated real estate as an investment class at a time when more common ones like stocks and bonds have either proved volatile or delivered scant returns. Canada's aging population is another factor driving investor growth: As the burden of providing for retirement has shifted from employers to individuals, Canadians are increasingly looking for investments that will generate cash when they retire and real estate is becoming increasingly popular.

"There's only really one other place to turn. I mean we're not going to count bitcoin or venture capital as a normal investment for somebody. The only alternative is real estate," said Mr. Sarracini, chief executive of real estate education company Keyspire Group and former TV personality on HGTV's *Income Property*. "What's grown is the acceptance to real estate as an investment."

The share of home purchases by first-time homebuyers has declined since 2015

Share of total home purchases, by type of homebuyer, per cent



THE GLOBE AND MAIL, SOURCE: BANK OF CANADA

Part of that acceptance comes via social media. Real estate investing is ubiquitous in Canada, with homebuyers and realtors talking up the housing market on Twitter, Facebook, YouTube, Instagram and other platforms.

Businesses that support real estate investing are seeing a surge in demand. Since the pandemic started, Keyspire has seen enrolment double for its real estate investing courses. The company is currently drawing 3,000 to 5,000 new registrants from across North America every week compared with about half that volume prepandemic.

Real estate investing clubs are taking off. Realtors with investing businesses are being inundated with requests.

"More and more people are seeking yield for their capital. Real estate is one of those stable assets in Canada," said Patrick Francey, the chief executive of Real Estate Investment Network, which has been providing real estate investing courses for 30 years.

Jacqueline Francis, 41, and her partner Leo, 40, started seriously getting into real estate investing in 2020. They did it to give their three children a better life. "We want to begin to create wealth for them, give them opportunities that we haven't had," said Mr. Francis, who grew up in a small, roach-infested three-bedroom apartment in Toronto with his four siblings and parents.

Before they started investing, Mr. Francis worked full time as a dump truck driver, hauling material out of construction sites. Many of the sites were residential real estate projects and his world revolved around developers and other professionals in the industry. At the same time, some of the couple's friends and relatives were investing or becoming realtors. The Francises described real estate as being a constant presence in their lives, so they decided to give it a try and enrolled in investing courses. They decided to focus on small apartments also known as multi-residential buildings. "It's not like get-rich-quick because it's something that takes time," Ms. Francis said.

The couple, who live in a house in Durham, Ont., own a condo in Toronto, two multi-residential buildings in Niagara – a 16-unit building and a six-plex – and have made deposits on two preconstruction units. They are also expected to close on a 12-plex in London. They used their home equity line of credit to buy the first multi-residential property in 2020 and raised cash from friends and family to buy the smaller one in 2021.

The couple described feeling more financially secure and say they will soon have more freedom. They said their friends are noticing and are starting to ask about real estate investing. “They want to know what we’re doing,” Mr. Francis said. “They want to get involved.”

Growing demand from investors has helped provide more rental supply, but has trickle-down effects that concern affordable housing advocates.

Housing specifically built for rental, also known as purpose-built rental, makes up a small percentage of the total housing units in the country. Government-funded social housing is an even smaller share.

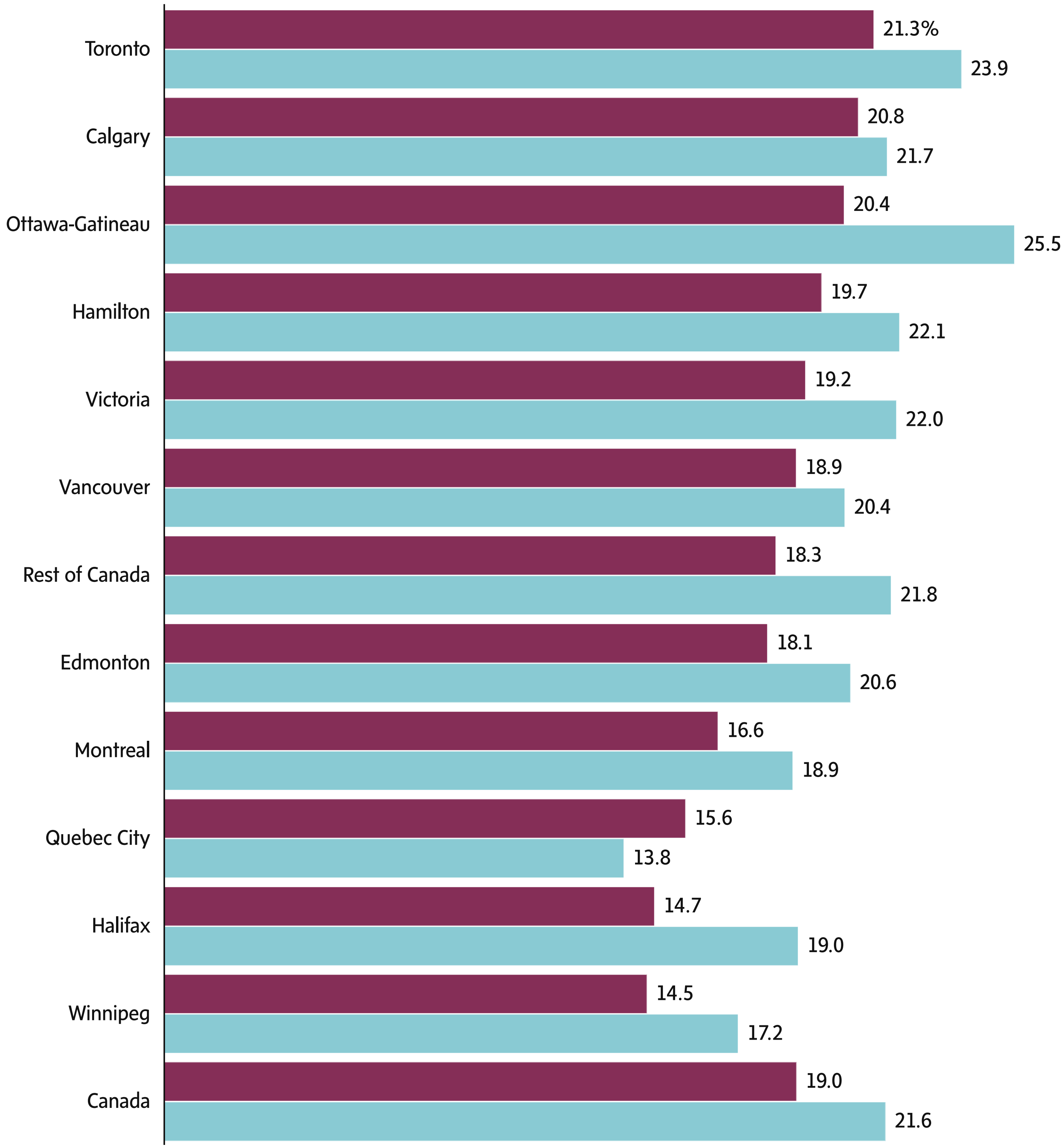
New purpose-built rental units started declining in the 1990s, as developers turned to condos, and federal funding for social housing slowed. About 20 per cent of the housing starts were specifically for rental in 1990, according to CMHC data. That percentage fell as low as 6 per cent and then hovered around 10 per cent until 2015, the beginning of the previous housing boom in Toronto and Vancouver. Meanwhile, the pace of condo development ramped up, accounting for 25 per cent of the housing starts in the 1990s, expanding to 30 per cent at the turn of the century and rising to as much as 40 per cent by 2012.

“The housing system has moved away from purpose-built rental towards individual investors as a source of rental supply,” said Aled ab Iorwerth, deputy chief economist of Canada Mortgage and Housing Corp., the federal mortgage insurer.

Investor activity has risen over time across major cities in Canada

Share of mortgaged home purchases by investors, by major city

2014 though Q2 2021 2021 Q2



THE GLOBE AND MAIL, SOURCE: BANK OF CANADA

DATA SHARE

The growth in investor purchasing is “absolutely shaping the market. There’s no question,” said Heather Tremain, chief executive officer of Options For Homes, a non-profit developer that provides shared-equity mortgages for low-income earners so they can own their home. “You see this tendency to be building smaller units,” she said.

Last year, there was record levels of home building in Canada. Builders broke ground on 244,025 new homes, according to CMHC, nearly 60 per cent of which was apartment or condo units.

Family-sized homes are becoming increasingly hard to find. So are affordable smaller units for renters, since rising prices are driving up fees. The price of a preconstruction condo in the Toronto region was $1,322 per square foot at the end of last year, according to condo research group Urbanation. That means a 550-square-foot condo costs about $730,000. If a buyer made the 20-per-cent down payment and had a mortgage rate of 3.1 per cent over 25 years, the monthly mortgage payments would run around $2,821, without factoring in condo fees, taxes and insurance. To cover their mortgage expenses, an investor would have to charge at least that much as monthly rent – an exorbitant amount for many would-be renters.

“If you look at numbers, it is creating new housing supply but is it addressing some of the long-standing challenges within our community? No,” said Brian Doucet, an associate professor at the University of Waterloo’s school of planning, whose research includes gentrification, housing and neighbourhoods.

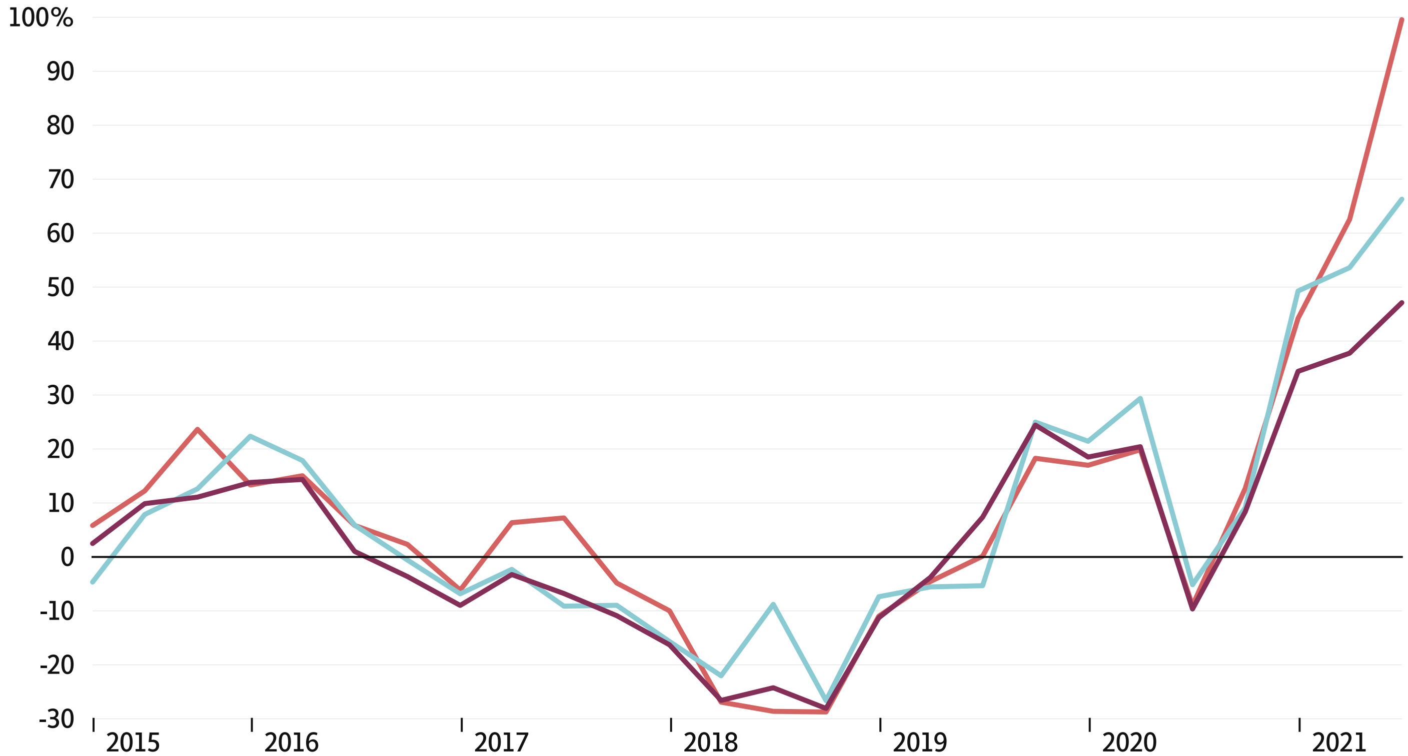
In Prof. Doucet’s community of Kitchener-Waterloo, there is extensive development along the new transit lines. There is a similar push to build more densely around transit hubs throughout Southern Ontario, the lower mainland in B.C. as well as major cities such as Edmonton. But the bulk of the new development is small housing units.

Prof. Doucet said the question of what to build and for whom is really left to the private sector to build what is more profitable and when a large percentage of buyers do not intend to live in the homes, developers are filling investor demand as opposed to demand from those seeking shelter.

Home purchases by first-time homebuyers, repeat homebuyers and investors have historically moved in tandem

Year-over-year growth in the number of new mortgages, by type of homebuyer

First-time homebuyers   Repeat homebuyers   Investors



THE GLOBE AND MAIL, SOURCE: BANK OF CANADA

DATA SHARE

“Until we confront the conflicting role that housing plays in our society as both shelter and a commodity, I am not very hopeful that adding new supply will address long-standing housing challenges, particularly for those on low incomes,” he said.

Prof. Doucet thinks governments need to take a more pro-active role in determining the type of housing that’s needed and not just the location. Ms. Tremain said some governments shape supply by requiring a range of unit sizes in a new project. But it’s tricky. Three-bedroom condos are expensive to build and can cost as much as a house, even without factoring in condo fees. “Requirements for large units need to be balanced with an understanding of the real demand and affordability for those units,” Ms. Tremain said.

Policy-makers have struggled to quantify the investor effect and to figure out what, if anything, should be done.

CMHC has repeatedly said investors are an important part of the housing market because they turn their properties into rental units and help finance new development.

CMHC’s Mr. ab Iorwerth said investors contribute to home-buying competition but said “they may be more a symptom than a cause,” of the current housing froth.

Regardless, policy-makers recognize that there is a problem with Canada's housing market. The federal government has said affordable housing is a priority. It is spending billions of dollars on refurbishing and building affordable housing and has proposed measures aimed at helping first-time homebuyers. It has zeroed in on house flippers, foreign buyers and foreign owners of empty homes to try to tamp down speculative buying. And it wants to curb investors' "excessive profits" in investment properties though it has not defined "excessive" and has suggested it would only apply to institutional investors, not individual investors. Down payment requirements for investment properties are also under review.

Homebuyers find it hard to believe that the Canadian real estate market could drop for a sustained period of time, especially when home prices have been on an upward trajectory for three decades.

EVAN BUHLER/THE CANADIAN PRESS

CMHC has warned that the housing market is overheated and at risk of a downturn. But that warning has been largely ignored. Homebuyers find it hard to believe that the Canadian real estate market could drop for a sustained period of time, especially when home prices have been on an upward trajectory for three decades. Still, if home prices do fall, investors are more vulnerable to losing their properties and life savings.

But for now, the lure of real estate is hard to resist. Even for investors who have had a hard time renting their properties, they have still managed to walk away with a handsome profit.

Cheryl Vanditelli and her partner Robert Harris bought five houses in Niagara in 2015. Each house was under $200,000. They started buying real estate because they were worried Ms. Vanditelli would soon lose her job. At first, they had tenants but then they ran into problems. One tenant stopped paying three months after moving in. Another stopped paying when the eviction moratorium went into place in the early days of the pandemic.

Ms. Vanditelli said they could not afford to make their mortgage payments and pay for the upkeep of the properties without renters. Then they had a hard time finding new tenants because Niagara's economy depends on American tourists and those tourists disappeared when the Canada-U.S. borders closed to non-essential travellers. So they sold. "It is not as easy as people think," Ms. Vanditelli said. Still, they made a profit. She estimates that they earned $80,000 on the sale of one property, $100,000 on the second and about $100,000 on the third.

Ms. Vanditelli does not have any immediate plans to buy more property. But when asked if she thought it was worth it, she said: "Absolutely. You can't put a price on your freedom."