

Bedrooms in the Sky

Is Toronto building the right condo supply?

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Taking Stock of the Condo Supply

The Greater Toronto Area's (GTA) condo boom has been underway for over a decade. In the middle of 2017, condo development reached its highest level ever. As development across the GTA shifts from sprawl to intensification as required by the province's Growth Plan, most of the new homes being built in the GTA are in buildings greater than five storeys.

However, in adjusting to the changing landscape of new development, it's important to dig deeper into the data to find out if we are building the right type of high-rise supply.

As millennials get older and seek larger spaces, and baby boomers downsize from detached houses, we will need housing units that meet the needs and economic realities of these important demographic

cohorts. Given the current housing affordability context and projected population increases, the GTA will require more family-oriented housing units in mid-rise and low-rise buildings in comparison to the stock built during the past several years. This report examines what is coming down the condo apartment pipeline in the Greater Toronto Area in the next five years to determine if we are on target to meet the ongoing shift in housing demand.

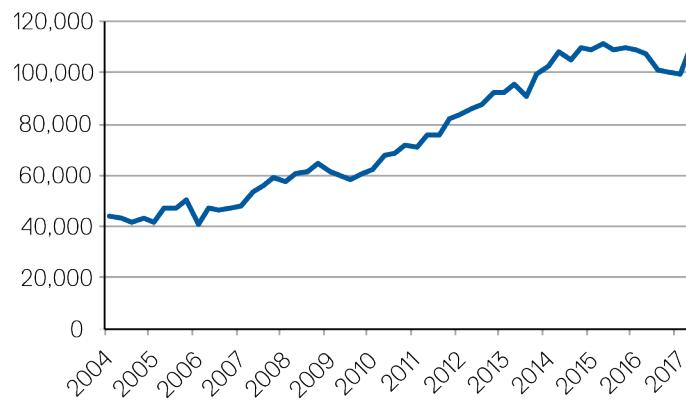


Figure 1: Condo Apartments in Development Over Time (GTA). Source: Urbanation – includes projects in active development that are in preconstruction, under construction, and recently completed.

About the data: This report is based data collected by Urbanation. Two primary datasets are used: (1) Urbanation's database of active condo apartment projects; (2) Urbanation's database of resale condo apartments.

Key Findings

In the Pipeline

There are currently 105,000 condo apartments under development, the highest on record. These units—which are 94% pre-sold—will be delivered during the next five years, adding a significant number of new units to the current stock of 321,500 condo apartments in the GTA. At least half of the units in development have been sold to investors,¹ who typically rent their units on the secondary rental market upon completion. The remaining units sold to end-users will gradually enter the resale stock.

Affordability Gap

The price gap between single-detached houses and condo apartments has tripled since 2007, from \$200,000 to \$600,000. Today the average GTA condo apartment costs \$511,000 while the average detached house costs \$1,134,000.

Up-Sizers

Over the past decade the GTA witnessed a decrease in population in the up-sizing age bracket of 35 to 44. This trend is set to reverse over the next decade as the millennial cohort ages. Between 2016 and 2026, the 35 to 44 age bracket is expected to grow by 207,000 residents, driving increased demand for larger, more family-friendly housing.

Downsizers

Over the next decade, downsizing seniors (aged 65+ years) will continue to grow rapidly (+484,000 residents). In many cases, they will be looking for similar housing options that young families struggling to afford single-family homes will also want.

"Two Bedroom-Plus" Unit

41% of condo apartment units under construction or in the preconstruction phase in the GTA have two or more bedrooms. This is equal to the share of 2+ bedroom units completed between 2011 and 2016 but still low compared to the 67% share of projects completed during the 1990s.

Building Up

Across the GTA, buildings are getting taller. In the 1990s, the average condo building was 15 storeys. Today, the average condo building in construction or pre-construction is 21 storeys tall in the GTA, and 26 storeys in central Toronto.

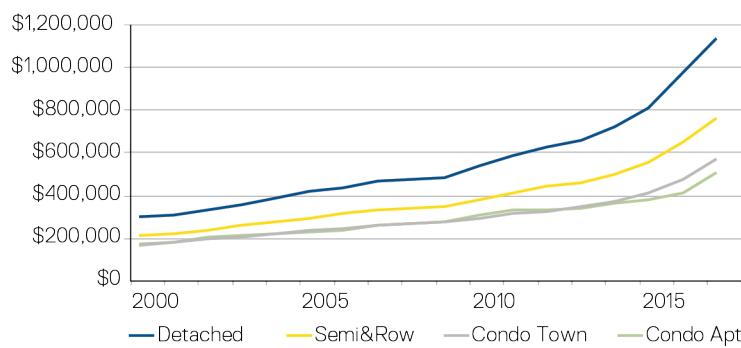


Figure 2: Average Sale Price by Unit Type (Greater Toronto Area). Source: Toronto Real Estate Board (compiled by Urbanation)

The Affordability Gap

Rising home prices have pushed detached houses out of reach for most first-time buyers and many move-up buyers, particularly those looking to buy in the City of Toronto. In 2007, the price gap between the average detached house and average condo apartment was \$205,000; in 2017 this gap has grown to over \$600,000. The gap between condo apartments and semi-detached houses and row houses is now \$250,000, making it difficult and costly to make even small advances up the housing ladder.

With the detached and semi-detached housing supply experiencing a long-term downward trend, prices are likely to remain elevated, and the gap between condo apartments and detached houses will continue to widen. This will force prospective home buyers to make the difficult choice of staying in a small condo apartment, which might not be suitable for a family, or "driving-to-qualify" to increasingly distant locations, increasingly

beyond the greenbelt, in search of lower housing prices.

Within the GTA, the best opportunity to provide affordable family-friendly units will come via built forms that fall between one-bedroom condo apartments and detached houses on the price spectrum—such as two- and three-bedroom units in mid-rise and low-rise multi-unit buildings.

However, even this presents challenges: while two-bedroom condo apartments can offer affordability at a price point that is just over half the price of a detached house in the GTA, resale data suggests that larger three-bedroom condos remain cost prohibitive to many buyers (see Figure 3).

According to TREB resale data for September 2017, a detached house is even more out of reach in the City of Toronto, averaging \$1.36 million. By comparison, the average resale detached house in the 905 was \$910,000. Creating more affordable diversity in the GTA housing market will be critical in the years to come.

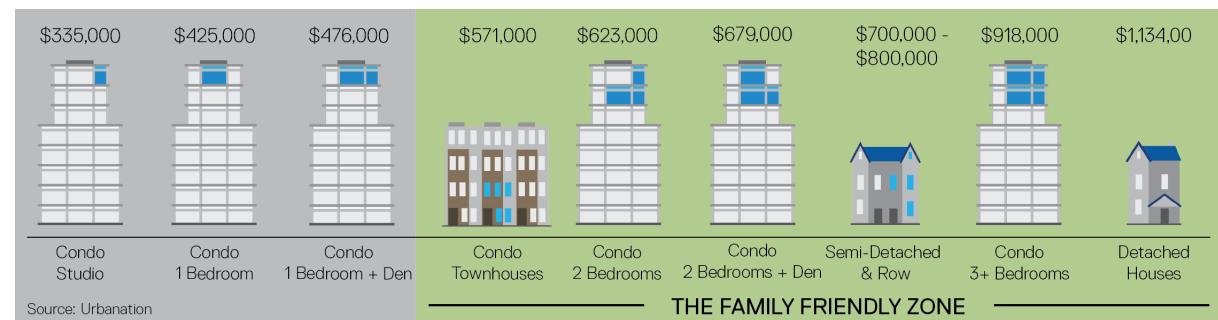


Figure 3: Average 2017 Re-sale price by unit type in the GTA (January to August). Source: Toronto Real Estate Board, Urbanation

The Millennial Move

Millennials are growing up. Today, renting and living in studios and one-bedroom condos may suit them just fine, but over the next five to ten years they will be looking to upsize to more family-friendly housing with an emphasis on larger two- and three-bedroom apartments given the affordability situation.

Over the past decade, the millennial population bump led to strong growth in the 25-34 age bracket—helping drive strong demand for smaller condo apartment

units. However, over the next decade as this millennial bump ages, growth within the 25-34 age cohort will slow and growth in the 35-44 age cohort will strengthen.

Growth in the 35-44 age cohort will be higher than it has been in decades. The projected population growth in this age bracket over the next decade (207,000 residents), will be more than the previous two decades put together. With an average first-time buyer age of 36², the 35-44 age bracket is one in which many individuals both move into home-ownership and begin to seek larger, more family-friendly housing.

Over the next decade, significant growth is also expected in the “downsizing age” of 65 and older. Census data shows that individuals 65 and over are more likely to live in apartments. Seniors choosing to downsize will be looking for options

to “age in place” with enough space and bedrooms to accommodate their life-style and possessions. These downsizing seniors will be seeking similar types of housing as up-sizing young families.

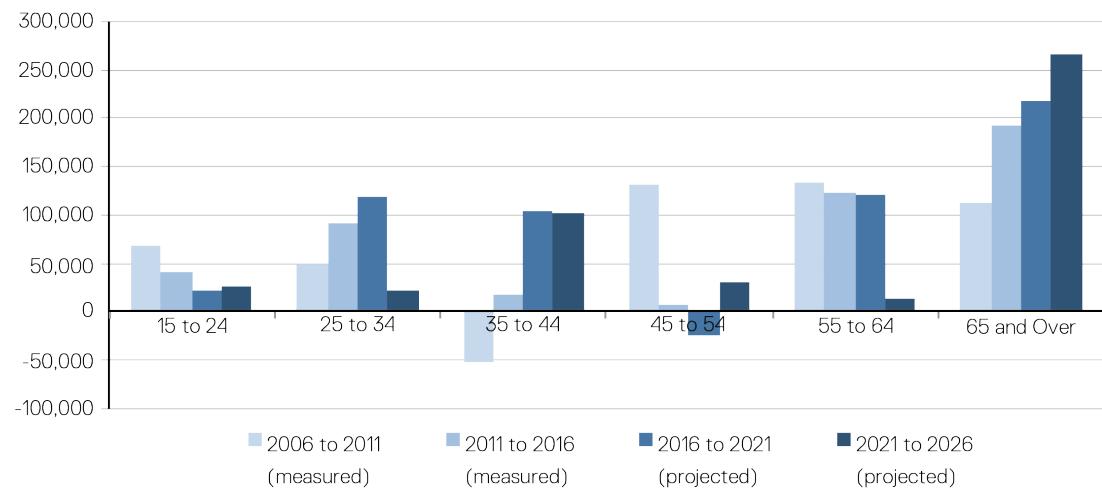


Figure 4: Population Change Measured and Projected Greater Toronto Area (2006-2026). Source: Statistics Canada, Ontario Ministry of Finance.



What's Coming Down the Housing Pipeline

According to CMHC data³, in 2016 condo units represented 49% of total housing starts for all home types in the GTA, up from 40% in 2006 and 32% in 2007. This shift towards condo unit construction is occurring as the region intensifies and greenfield land for new detached housing construction moves farther away from urban centres, employment, transit and services.

With our growing reliance on condos, it's no surprise that condo construction has reached its highest level on record: 94,000 units are currently under construction or in the preconstruction phase and will come to the market over the next five years. However, almost all of these units have been pre-sold, and the units that will turn over first will be smaller rentals offered by investors. Opportunities for families looking to up-size or downsize will arrive more gradually as end-user purchased units eventually become available in the resale market.

Developers continue to offer a number of two-bedroom and larger units. However, buyers who want immediate access upon completion of a condo project may need to buy before construction begins. This wait time can be up to five years depending on the size of project and timing of sale, making the decision to buy

a condo difficult to plan. Furthermore, many downsizers and young families do not necessarily want to live in a 30- or 40-storey tower downtown, which is why it is important to examine where we are developing family-friendly condo units.



Where Are We Building?

Figure 5 presents total number of condo apartment projects coming down the pipeline that are currently under construction or are in the preconstruction phase—projects that should be delivered over the next five years. Figure 5 also presents how the number of projects translates into the total number of actual condo apartment units that will be delivered over the next five years, broken down by GTA region.

Approximately 70% of condo apartment development is happening in the City of Toronto, and almost half (47% or 45,000 units) is occurring in the Central 416.

While approximately 35% of total projects underway are in the 905 Region, only 28% of housing units are in the 905 Region. This is due to a higher share of projects in the low-rise and mid-rise ranges in the 905 Region.

The Outer 416 suburban areas of Toronto contain more than five times the land area

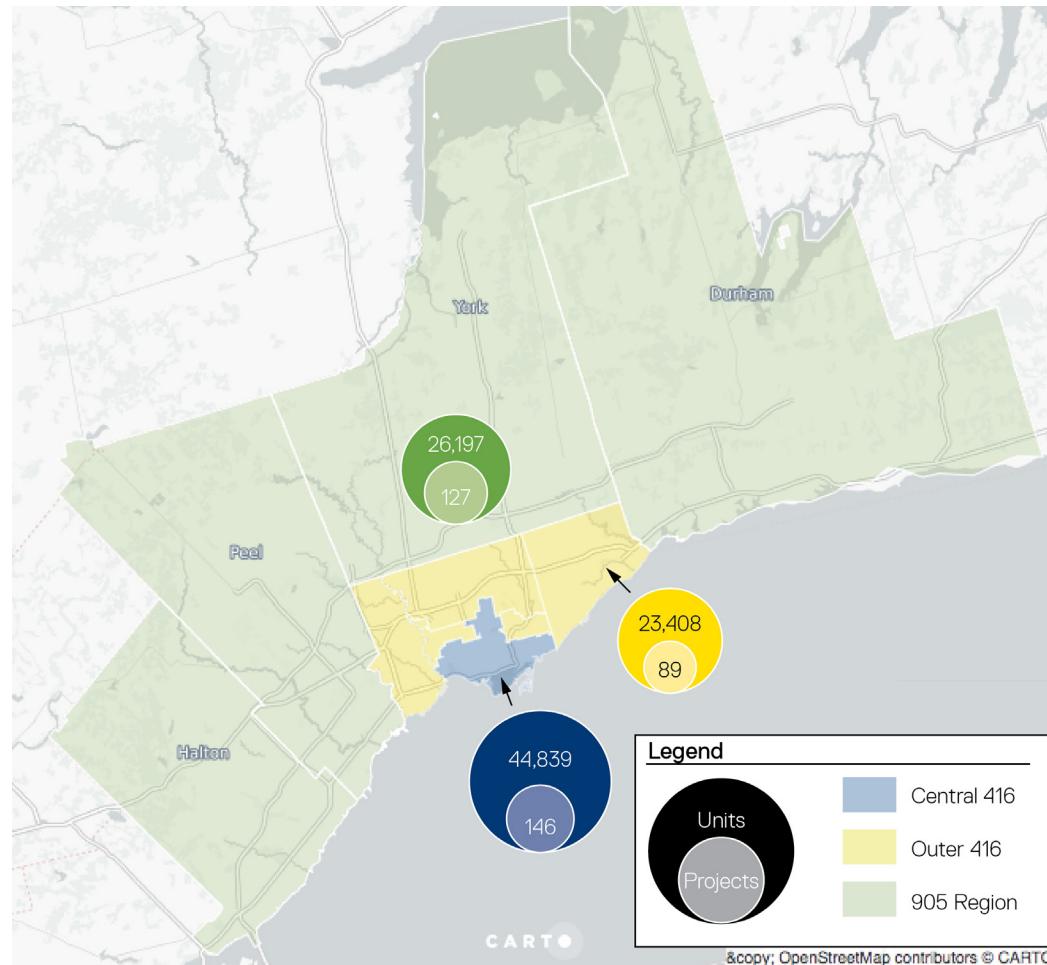


Figure 5: Condo projects under construction or preconstruction in the GTA

of the Central 416 Area, yet these areas have 40% fewer projects and almost 50% fewer units in development than the central city. Figure 5 presents the geographies examined in this study:

- Central 416: the former pre-amalgamated municipality of Toronto
- Outer 416: Toronto's suburbs, including Scarborough, North York, East York, York and Etobicoke
- 905 Region: the GTA excluding the City of Toronto

What Are We Building?

There is a need for a shift in housing typology to keep up with demographic changes. While the GTA must increasingly adjust to multi-unit homes in lieu of detached houses, living in a tall high-rise may not be for everyone. Factors that influence family-friendly housing typology include unit size and number of bedrooms, as well as the building type, height and location. For young professionals, a detached house still represents the “ideal” for many,⁴ but finding an affordable detached house increasingly requires driving farther distances from urban centres.

Given the rising cost of housing, there is an increasing need for “missing middle” options between detached houses and small apartment units. This missing middle includes low-rise walk-ups and stacked townhouses that can infill low-density neighbourhoods predominated by single-family homes.

Mid-rise buildings can also help bridge the gap between detached houses and

small apartment units. Mid-rise buildings tend to include larger units and can be more attractive to families than high-rise buildings due to their moderate scale and better integration into existing communities.

Mid-Rising

In the 905 Region, there is an increased proportion of condo housing units in mid-rise buildings (e.g. buildings under 12 storeys) relative to historical data. This demonstrates the efforts made by these GTA municipalities to achieve growth plan densities through mid-rise and stacked townhomes (see Figure 6).

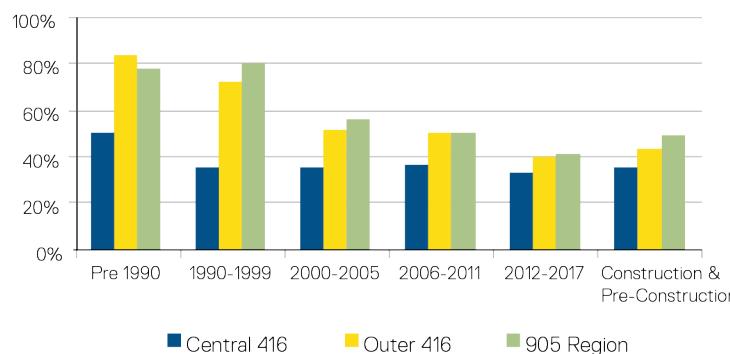


Figure 6: Share of Units in Buildings under 12 Storeys by Building Construction Year. Source: Urbanation.

In the 416, the proportion of condo apartments in buildings under 12 storeys has decreased since 1990, with the steepest decline taking place in the past decade. This indicates a growing propensity towards taller condo buildings. The same can be said of the share of buildings that are under 12 storeys. During the 1990s they made up 56% of the condo buildings completed in Central 416; since then this has halved to 28% (both for completions between 2011-2017 and for projects in development).

Figure 7 presents the number of projects and number of housing units in buildings under 12 storeys that will be completed over the next five years. Condo units in buildings under 12 storeys are being built in greater proportions in the 905, representing 31% of all multi-family housing units coming down the pipeline. In Central 416, condo units in buildings under 12 storeys represent only 7% of total condo units currently in the pipeline.

In total, 16% of all condo apartment units in the pipeline in the GTA are in buildings under 12 storeys, while 66% of new multi-unit homes in the pipeline are in buildings over 20 storeys.

In the City of Toronto, 73% of new multi-unit homes are in buildings above 20 storeys. In the central city of Toronto, 80% of new multi-unit homes in the pipeline are in buildings over 20 storeys; over half are in buildings 36 storeys and taller.

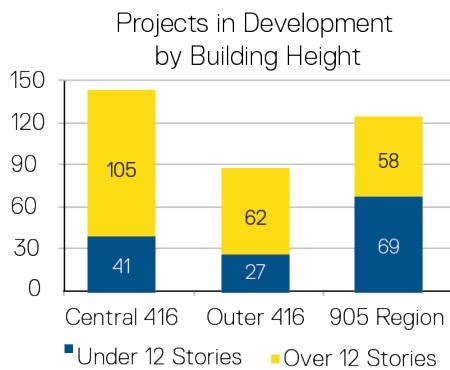
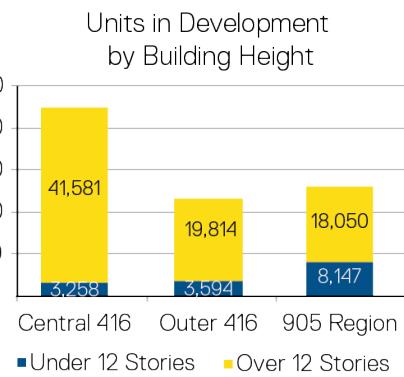


Figure 7: Projects & Units by Building Height.
Source: Urbanation.



Missing middle

Figure 8 shows the number of condo apartments in the five-year pipeline that are in buildings of various heights.

Just 3% of all condo apartments in the pipeline throughout the GTA are in buildings under five storeys, such as low-rise walk-ups and other types of “missing middle” homes.⁵ Buildings of this scale offer condo apartments located within existing low-rise residential neighbourhoods. In addition, buildings six storeys and under can be built using wood frame construction which offers greater flexibility for developers.

Only 7% of units in the pipeline are in buildings between five and eight storeys, representing lower mid-rise. For example, Toronto’s mid-rise guidelines for many streetcar avenues in Toronto restrict building heights to either six storeys or eight storeys, depending on street width.

Buildings of this scale can be integrated into the surrounding neighbourhood character and streetscape.



Figure 8: Units in Development by Building Height.
Source: Urbanation

Bedroom Communities

The proportion of condo units with two or more bedrooms has been declining over time throughout the GTA—a troubling trend given the surge of households that will be seeking family-friendly housing over the next 10 years. Only 41% of units currently under construction or in preconstruction have at least two bedrooms, down from 67% in buildings completed during the 1990s (see Figure 9). Based on Urbanation’s data set, 47% of all existing built condo apartment stock to date are two-bedroom units throughout the GTA.

Since 2000, the share of one bedroom and one-bedroom + den units have increased at the expense of larger units with more bedrooms. This was not always the case. Prior to the 2000s, the majority of condo units constructed were two bedrooms or larger.

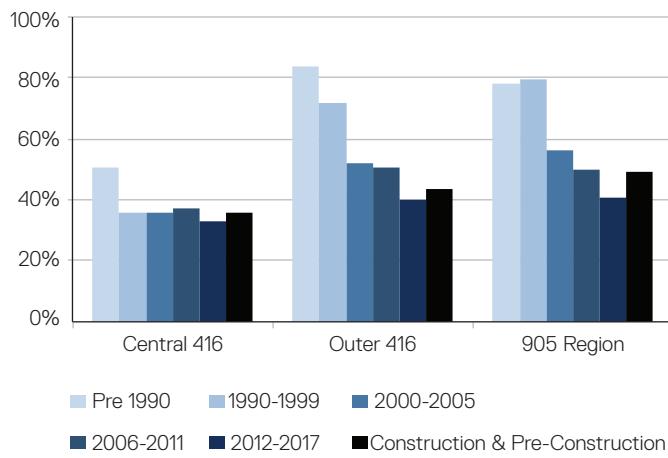


Figure 9: Share of Units 2 Bedrooms or Larger by Construction Period and Location. Source: Urbanation

In the City of Toronto, 38% of homes in condo buildings currently under development have two or more bedrooms; this is up slightly from 34% of units 2+ bedrooms built from 2011-2016. However, this is

still low compared to the 1990s when 58% of units built in multi-unit residential buildings were 2+ bedrooms in the City of Toronto. This decrease in 2+ bedroom units since the 1990s may be partially explained by investor demand for smaller units and higher development charges for 2+ bedroom units than for one-bedroom units and studios.

While the overall share of 2+ bedroom units is down, the proportion of three-bedroom units under construction is slightly higher than the share in the existing stock. This may signal a departure from a long-term trend that saw the share of three-bedroom units decline. This trend appears to be continuing. There is a higher share of 3+ bedroom units in buildings in the preconstruction phase (4.6%) versus the construction phase (3.4%). This increase is due in part to the fact that the City of Toronto often requires a minimum number of threebedroom units during the re-zoning process.

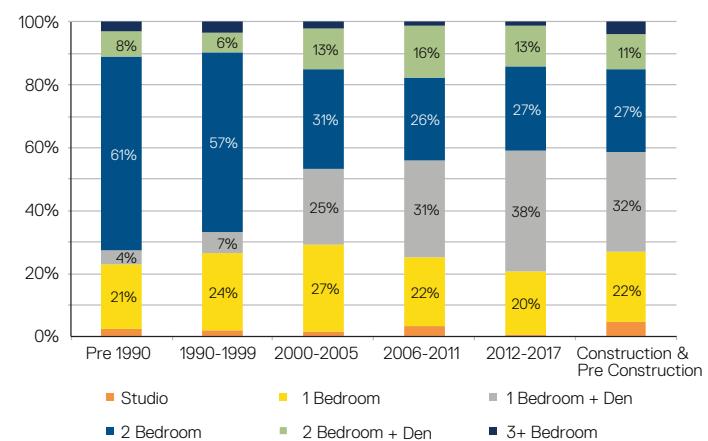
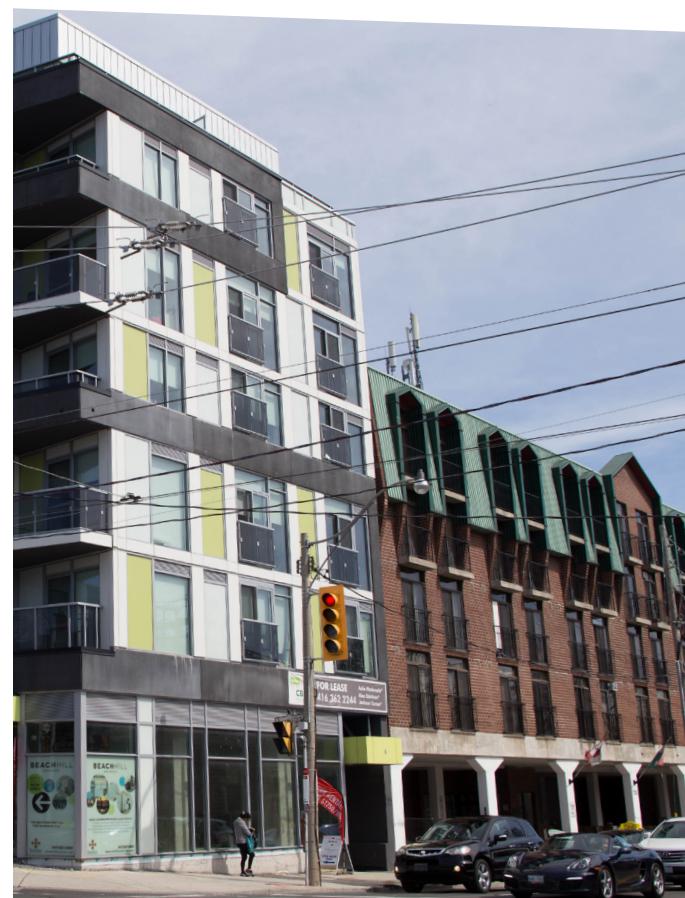


Figure 10: Unit Mix by Construction Period - GTA. Source: Urbanation.



Conclusions

The condo boom in the GTA has reached the highest level of condo apartment construction on record. However, the combination of the GTA's changing demographics, housing affordability and construction trends suggest **we are not building enough family-friendly multi-unit housing.**

The next decade will see significant growth in the 35-44-year-old age bracket. This demographic will be seeking new family-friendly housing and will need housing units with at least two bedrooms. However, Urbanation's data show that construction is still tilted towards one-bedroom units. Despite the coming surge of households seeking family-sized units, we are building fewer two-bedrooms proportionately than ever before. However, there are some positive signs. Specifically, the share of 3+ bedroom units appears to be trending upwards, yet these units have an average resale price of over \$900,000.

Today, only 9% of condo apartment units under development in central Toronto are in mid-rise and low-rise buildings; this is down from 29% in the 1990s. Over the next five years, the majority of housing units coming online in Toronto will be in buildings over 20 storeys tall. Building more family-friendly mid-rise and low-rise buildings may require development to shift to locations in the GTA with more affordable land costs than the Central 416. Yet it is the 416 that is in greatest need of family-friendly housing units.

If these construction trends continue, the proportion of family-appropriate housing available in location-efficient neighbourhoods (close to transit, employments, schools and services) will decrease, and affordability will further erode. This increasing demand for family-sized units means that young families will have to drive to qualify for any type of unit, not just detached housing. This may also contribute to pressure on greenfield lands and urban sprawl to accommodate outward building of family-friendly housing—unless we can find ways to build more affordable missing-middle housing units.

Endnotes

1. Based on the share of recently completed condos that have entered the rental market.
2. Brookes, Samantha (2016, April 21). "Millennials: Buying A Home ASAP Is Worth It In The Long Run." Huffington Post. Available at: http://www.huffingtonpost.ca/samantha-brookes/millennial-real-estate_b_9750526.html (October 20, 2017).
3. CMHC (2017). Housing Market Information Portal. Accessed at: <https://www03.cmhc-schl.gc.ca/hmiportal/en/#TableMapChart/2270/3/Toronto> (October 20, 2017).
4. Toronto Region Board of Trade (2017, June 1). Young Professionals are Looking Beyond the 1-Bedroom Condo. Available at: https://www.bot.com/Portals/0/NewsDocuments/612017News Release_Survey Results June 1 - Final.pdf
5. "Missing middle" housing captured by Urbanation's database includes projects classified as condo apartments. It does not fully capture condo townhouses or freehold townhouse developments and as a result low-rise "missing middle" housing likely captures a larger market share than 3%.

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