NEWHOMES

Aging condos can be a risky proposition

BYRON ARMSTRONG
Special to Postmedia Network

Just being able to buy a condo may seem like the hardest part, but what happens when a building gets older and the cost of maintaining it rises exponentially?

You now hold the keys to your condo, located in prime territory, with a hard earned feeling of accomplishment. Congratulations! Pop the champagne, put your feet up, and enjoy the equity building fruits of your labour! That's the hardest part done, right?

I'm neurotic by nature; so I ask questions most people don't. Questions like, what happens to my building when it gets older and the cost of maintaining it rises exponentially?

What if there's some natural disaster, like a fire or flood, that creates a need for repairs so extensive, that it negatively affects the value of my property? In fact, what if it's so bad that the building just needs to be torn down altogether?

I needed answers. Robert Van Rhijn, Broker of Record and founder of real estate data platform Strata.ca, has over a decade of experience on the Toronto condos and lofts market. I started there.

According to Van Rhijn, "The closest we've gotten to that in Ontario was the situation in midtown Toronto involving 39 Roehampton." In the aforementioned situation, a boutique, 27 unit condo was sold to the developer Metropia, who had an interest in building a larger condo on the site. "Section 124 of the Condo Act stipulates that once 80% of the unit owners agree to the sale of the building, they can terminate the condo corporation, effectively allowing the sale of the condo," says Van Rhijn.

"It's still not a situation where the building was so old it needed to be taken down though." Van Rhijn asserts, "there are reinforcement methods that could, in theory, extend the life of a concrete condo building indefinitely." If a building can be reinforced indefinitely, regardless of age, why would the unit owners of a condo be willing to sell the property to a developer interested in buying them out?

"There comes a point where the expense of maintenance becomes financially unsustainable for owners," says Van Rhijn, "which in turn hurts the value of the units." There are really only two ways for buildings to procure additional money for maintenance.

Assuming the building's finances are being handled properly, and there's enough money in the reserve fund to handle general upkeep, just adjusting the maintenance fee is one way. The other option is a worse case scenario. "If the reserve fund is underfunded due to irresponsible financial management or unforeseen damage," states Van Rhijn, "that may call for a special assessment, which can cost owners thousands of dollars upfront and stigmatize their condo building."

Not good.

While real estate lawyer Alexander Hu of Alexander Hu Professional Corporation acknowledges that there's no precedent for buildings being sold for age or disrepair in Ontario, he does point towards extreme circumstances in other parts of the country.

He specifically mentions the "leaky condo crisis" in Vancouver, where multi-unit condos suffered extensive damage due to rainwater infiltration that rotted structures and created mould, as an outlier case.

According to the findings of the Barrett Commission, the buildings weren't built appropriately for the environment, which resulted in billions of dollars in damage, and a $670 million provincial bailout.

"One condo is one thing," says Hu, "but when it gets to the point where damage is systemic, it could fall to the taxpayer to pay for it." Hu believes cases like this may set some legal standard in Ontario as it pertains to the need for condos to be redeveloped.

Hu notes, "Toronto is in the middle of our condo boom and a lot of stuff is just going up. We don't really know what it will look like in 20 years." Meanwhile, Van Rhijn believes the problem is much farther off. "I think it will be another 50 years before we really begin to see this as an issue at all," he says.

So what does this all mean for you? Well, it could mean being stuck in a worsening situation where your property potentially loses value as your condo fees rise higher. It might mean having the ability to still get fair market value out of your property, no matter what happens down the road.

However, If your condo withstands the rigours of time, it could also mean worrying over nothing. Unfortunately, the only way to test the theory, is to live through it. If you've made it through the process of owning a home, the rest is child's play.

GTA's rental market is broken, here's how to fix it

RICHARD LYALL
RESCON

There are two words that can change the complexion of housing in the GTA — market equilibrium.If you prefer something a little catchier, let's try this three-term phrase: supply equals demand.

The demand for housing is unquenchable, and the lack of supply is making it chaotic for anyone to find a home — we're underproducing by about 20,000 units per year in this region.

While the market is behind by tens of thousands of housing units, it doesn't have to be — Tokyo's housing prices stabilized after the Japanese government facilitated the streamlining of approval processes. That led to a huge boost in the housing supply as hundreds of thousands of units pre-emptively were made available to home buyers.

The conditions that helped stabilize the Tokyo housing market included no rent controls, which do not work. Sure they benefit current renters, but this is at the expense of new renters and people entering the market — ultimately, they kill new investment.

Tokyo also had fewer restrictions on height and density, a lesson that can all be applied to Toronto and the GTA. In fact, our elected officials are well aware of that this can help home seekers: various Ontario governments have been strongly encouraging intensification in urban centres and near transit hubs through public policy since introducing the first Places to Grow plan in 2006.

And that leads me to addressing the GTA's broken rental market, which punishes millennials and Generation Z the most for being late to the home searching game — which is obviously not their fault.

Most young people's first home, on their own, is a rental. Very few of us have been fortunate to have parents that bought us our own starter home. So, as they leave the nest, millennials and Generation Z have to hunt for rentals in a stagnant housing market, which makes it more difficult to move closer to work.

With costs rising exponentially due to market circumstances, there's less money for the other essentials of life that come in addition to shelter — food, car payments, heat, water, childcare. These young people have a difficult introduction to working life. There was an old rule of thumb bandied about 20-plus years ago that said your housing costs should only take up 25% of your income; it's now past 50% for some of the less fortunate Torontonians.

> **Housing costs should only take up 25% of your income; it's now past 50% for some of the less fortunate Torontonians.**

Of course, the residential construction industry would welcome the addition of purpose-built rentals –more than 3,500 are expected to hit the Toronto market this year (which, sadly, is a few drops in the bucket when there are 115,000 people moving to the region every year). But the fact is, until the market conditions change to make it easier to build them, new condo builds are supplementing renters' needs in this region. According to Statistics Canada, 38 per cent of all Toronto condo units are not occupied by owners.

And while some people blame new condo builds for spiking rental prices in Toronto and the surrounding region, let me remind you of this: without the thousands of suites that are added to the rental housing pool by condo investors, we would see rental prices go even higher. Yes, this is hard to imagine.

But remember the goal — let's create a market where supply meets demand.

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