

CMHC Reports that GTA Condo Developers Are Mitigating Risks of Unsold Inventory

A recent report by Canada Mortgage and Housing Corporation (“**CMHC**”) indicates that condominium developers in the Greater Toronto Area (“**GTA**”) are reducing their risks of having unsold inventory by not commencing construction until a high threshold of units have been pre-sold. CMHC research shows that during 2014 and 2015, 79% of condominium projects in the GTA did not start construction until at least 70% of the units had been pre-sold.

The majority of those developments that started construction before reaching the 70% threshold fell into three categories:

- projects with less than 100 units
- projects by large, established developers that were able to inject more equity into their projects
- multi-phase projects where the initial phase had met the 70% sales threshold and where it made sense to start construction of the initial and subsequent phases at the same time.

Projects with a higher level of unsold inventory upon completion of the project generally had a lower sales threshold at the time that construction commenced. The unsold inventory in the GTA was primarily concentrated among a few projects.

“Builders must balance the trade-off between minimizing speculative building (selling every unit before construction) and making units available for buyers looking to move-in straight away. If builders were to sell every unit before starting construction . . . this can put undue upward pressure on rents and prices and de-stabilize the housing market. On the other hand, with too low a sales threshold, there is a greater risk of an oversupplied market. Inventory management therefore continues to be necessary to make sure that condominium units currently under construction do not remain unsold upon completion.”

CMHC also noted that the higher the sales threshold, the longer it took before construction started. On average during 2014 and 2015 it was approximately 27 months between the date that the sales office opened and construction started.

This latest research from CMHC may help allay concerns that developers have been over-building condo units in the GTA, which will eventually lead to falling prices.

[Click here](#) to read the CMHC report.