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Developers make the investment case for mid-rise condos

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A rendering of Fieldgate Urban's The Poet development at 1285 Queen Street East in Toronto.

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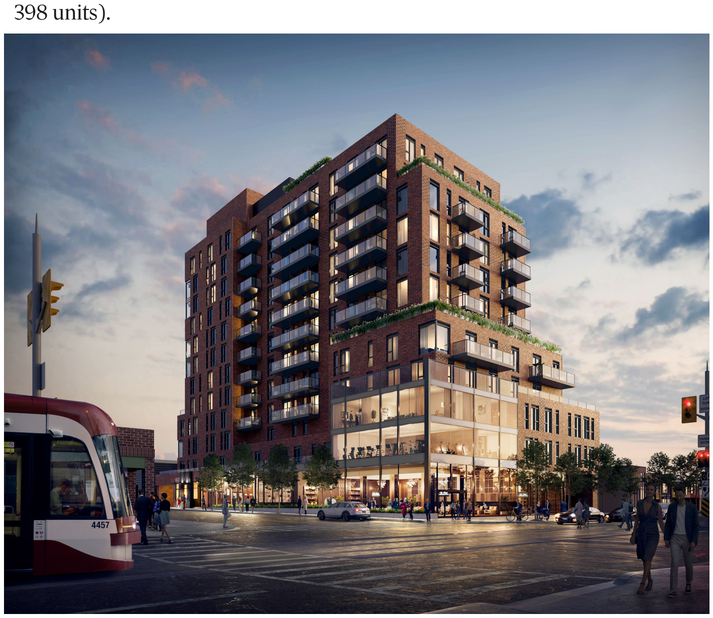
Not all condominiums are created equal, and in the Toronto area potential buyers can expect very different amenities, pricing and lifestyles at buildings described as mid-rise (under 12-storeys) compared with those described as high-rise (12-storeys and up).

Real estate is full of narratives, and one particularly interesting one has been to describe mid-rise as “luxury” product, because of its typically higher costs per square foot, coupled with what is typically a larger square-footage per unit as well. But if you listen to salespersons pushing some new mid-rise launches, mid-rise may cost more than high-rise upfront, but shorter buildings may also outperform their tall rivals in terms of appreciation over time.

Riz Dhanji, president of RAD Marketing, leads the sales and marketing effort for a mid-rise condo project by Canderel, a Montreal-based residential and commercial developer, at 900 St. Clair West in Toronto. When looking to build his pitch for the mid-rise, he looked at the comparative appreciation of two other projects along St. Clair West; ZIGG Condos at 223 St. Clair West (an eight-storey 166-unit building), and Imperial Plaza at 111 St. Clair West (23 storeys, 398 units).



Canderel's St. Clair Village development at 900 St. Clair Avenue West.

CANDEREL

In 2017, ZIGG's average price per square foot was $767; by 2019 the average reached $999. Down the street at Imperial, prices started higher – $843 a square foot – and finished higher as well at $1,025 in 2019. But the relative rate of appreciation favoured Zigg: 30-per-cent price growth compared with 21-per-cent.

Asking $1-million for a three-bedroom condominium may be difficult to contemplate for many buyers, but to Mr. Dhanji, it's all relative. "If you want to buy in Wychwood, a starter home will cost you $1.5-million to $1.6-million – how does a young family afford that? That person who wants to get into the neighbourhood, this is the starter for them." And as he pitches to presale buyers, he argues that mid-rise can increase in value with that family.

As Shaun Hildebrand, president of market research firm Urbanation Inc. points out, anecdotes are not data and a few examples do not make a trend. When Urbanation compared mid-rise with high-rise resale price trends over the past 15 years – for simplicity focusing on the old city of Toronto boundaries and excluding Etobicoke, Scarborough and North York – some interesting findings emerged.

First, over that time mid-rise posted an average annual price growth of 7.7 per cent, which underperformed high-rise price growth, which averaged 8.2 per cent annually. But high-rise price growth is uneven, spikey even during times of high speculation. "Taller buildings have reached higher peaks for price appreciation during market run-ups, which may be related to a greater degree of investment activity in these projects," Mr. Hildebrand said. "During periods of steadier price appreciation, such as 2011 [to] 2015, mid-rise buildings generated relatively stronger rates of growth."

Fieldgate Urban's Dov Seidenfeld argues that mid-rise buyers tend to want to live in their units and not rent them out.

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That fits with the profile of a mid-rise buyer, according to Dov Seidenfeld, principal at Fieldgate Urban, a subsidiary of Toronto-based developer Fieldgate Homes, which is preselling the Poet project at 1285 Queen Street East. "People may not want to invest in the beginning, because the end price is higher [than high-rise units], but when you break it down it's a very minimal premium," Mr. Seidenfeld said. He argues that mid-rise buyers tend to want to live in their units and not rent them out. Among other things, when a mid-rise project arrives in a mature area such as Leslieville – which is dominated by low-rise housing – it is often the first new supply to the area in decades.

"The amount of mid-rise zoned is limited in scope, and makes them a stronger investment case: there are very few units on the market, the end users will have that supply to live with and that's it," Mr. Seidenfeld said. "Also, people retain them – they do not give them up – so the second one comes on the market, it disappears. That creates for the [presale] investor a huge market opportunity."

Urbanation also sees signs that the period of soaring price growth in the high-rise sector may be nearing its end. "Price growth between the two building types began to converge in 2018, and in Q1-2019, buildings under 12 storeys saw average resale prices per square foot grow 10 per cent year-over-year, compared to 6.5 per cent for buildings of 12 or more storeys," Mr. Hildebrand said. "We may be now entering back into a period of outperformance of mid-rise buildings as the market is shifting."

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