The New York Times

January 5, 2011

Prices Still Soaring In a Toronto District Newly Fashionable

By ALISON GREGOR

TORONTO — Once a hodgepodge of textile factories and auto lots, the fashion district here has rapidly evolved into upscale restaurants and boutiques in refurbished warehouses and residential units in sleek glass structures.

The roughly 17-square-block area where most of the development is taking place is named for its link to the textile industry. Just west of Toronto's downtown and theater district, the fashion district is bisected along King Street by the city's most popular streetcar line. Development has been centered on the diminutive Victoria Memorial Park, which is surrounded by stylish midrise buildings and industrial brick structures given new life with trendy shops and restaurants.

Francis J. Greenburger

Even in a Canadian real estate market that has been on a bull run for a decade, the district's robust sales and rapidly rising prices stand out.

"This is the combination SoHo-meatpacking district of Toronto, and its transformation has been just as amazing as the meatpacking district's has been here," said Francis J. Greenburger, the chairman of Time Equities Inc. of New York. The company has been involved in developing the district since 2004, when it joined with Freed Developments of Toronto to build an 85-unit condominium building called 66 Portland.

Since then, Freed has completed five more projects, including one hotel, and has four others being marketed or under construction, frequently in partnership with Time Equities and other partners.

Freed Developments also has plans for its biggest project, consisting of 1,200 units done in alliance with the Canadian development company Minto Group, said Bill Gairdner, Freed's vice president of operations.

"We've been pretty busy scooping up as many sites as we can, so there hasn't been room for too many other developers to come in and compete, though we welcome that," Mr. Gairdner said. "To have these bigger companies coming in and doing these projects is almost a tribute to what we've been doing here."

The surge of development has not gone unnoticed. In 2008, the Tridel Corporation, one of the largest condo developers in Canada, bought an ailing Starwood Hotels project in the district that would have brought in Aloft and Element hotels. The parking garage had been excavated and poured, and Tridel built 305 condos in a 14-story glass building, calling it Rêve.

"We refer to this area as King West, which really is a hot spot for new condominium development in Toronto," said James Ritchie, a senior vice president of sales and marketing at Tridel. "It's the largest submarket in the city for condo development." The King West area extends a few blocks west of Bathurst Street.

In the last year, Tridel has sold more than 270 condos in Rêve, with only the larger units remaining, Mr. Ritchie said. "It was very well received in the market," he said.

The recent wave of development in the area started in 1996, when Context Development began Twenty Niagara, a 24-unit glass condo building on the park. The city granted an experimental rezoning to residential from industrial, said Howard Cohen, the president of Context.

"An opportunity came up for a really interesting site, because it was right on a park in this quasi-industrial area, but very close to Toronto's core," Mr. Cohen said. "We thought there might be some demand to live downtown in an area that had a lot of character, although it didn't appeal to everybody because it was still full of old industrial buildings and parking lots."

It took about a year to sell the building's units at prices of about $100 a square foot, he said, but it was successful enough for the city to rezone the district for residential development. Now, developments of hundreds of units sell out in a year, and prices in the fashion district have achieved $700 a square foot, much of that gain taking place in the last four years, Mr. Cohen said.

The average price per square foot for condos in the greater Toronto area is $532, and $814 in Toronto's core, according to the real estate information services company RealNet Canada.

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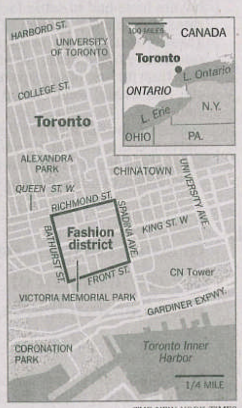
Since the redevelopment of the fashion district, top, real estate sales there have been strong and prices have been rising. The Rêve building, above, contains 305 condos.



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The most recent projects to be completed by Freed Developments are 550 Wellington West, with 336 condos, which is adjacent to a Thompson Hotel with 102 guest rooms. The buildings share a rooftop pool and lounge, similar to the Gansevoort Hotel in New York, along with three restaurants, including a Scarpetta, which opened in New York's meatpacking district in 2008.

Freed Developments has increasingly been including retail space in its residential offerings, Mr. Gairdner said. In a 216-unit project called 75 Portland, with interiors designed by Philippe Starck, retail space is available to rent, and at 650 King, a 236-unit project on the market, plans are to include a high-end steakhouse, he said.

At first buyers were mostly young singles, who have been joined recently by families and new immigrants. Many of the condos are owned by investors.

While the fashion district continues to be an appealing neighborhood to investors and buyers who plan to live there, there are some concerns whether it could survive a bust in Canada's residential real estate. Some real estate experts have estimated that homes in Canada are overvalued by 20 percent, even though banks do not lend to residential development projects that are not at least 65 to 70 percent presold.

Also, under law, buyers must close once they have signed a purchase contract, and the interest on home loans is not tax-deductible. Recourse lending generally applies to developers and to homeowners, who, upon defaulting, are still responsible for any part of the loan the bank cannot recoup by selling the property. Under Canadian law, lenders must insure any mortgage for more than 80 percent of a property's value.

"Although there's a lot of development going on, I wouldn't call it a bubble because these are real buyers, with 20 percent deposits, who are responsible for the purchase even if the price goes down," Mr. Cohen said.

Even so, some specialists said that low interest rates artificially stoked Canada's housing market during the recession, which could result in higher foreclosure rates. At the same time, Canadian consumers have taken on increased debt in recent years, while the Canada Mortgage and Housing Corporation, a government-established national housing agency, for a time stretched the amortization on home loans to 40 years from 25 and began insuring loans for which buyers made no down payment.

"Pundits see ongoing demand of a very high number of units over a sustained period of time, but it seems we've experienced that in other markets, and suddenly something happens and markets turn out to be not quite as strong as we thought," said Mr. Greenburger of Time Equities.

"Toronto's had a long run," he said. "But we know things don't go in a straight line."