

GTA Housing Market Outlook

Will Dunning
April 18, 2013

“Economists Don’t Predict the
Future Because They Know;
They Predict Because They’re
Asked”

John Kenneth Galbraith

What Causes Housing Starts?

- A need to expand the housing inventory
- When the resale market doesn't provide enough supply

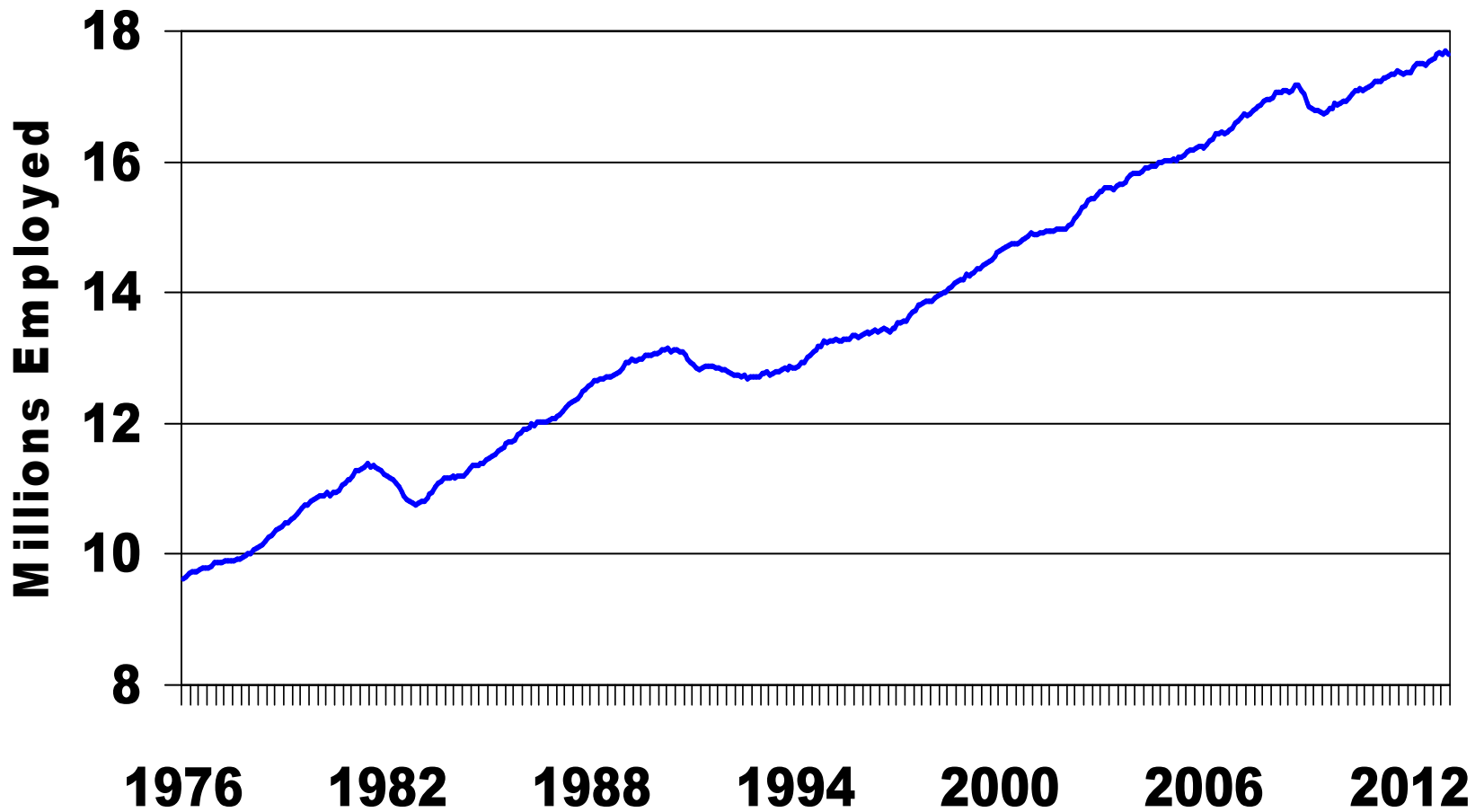
Need for new construction is shown by

- Resale trend
- Sales-to-listings ratio
- Price growth

What Drives Resale Activity?

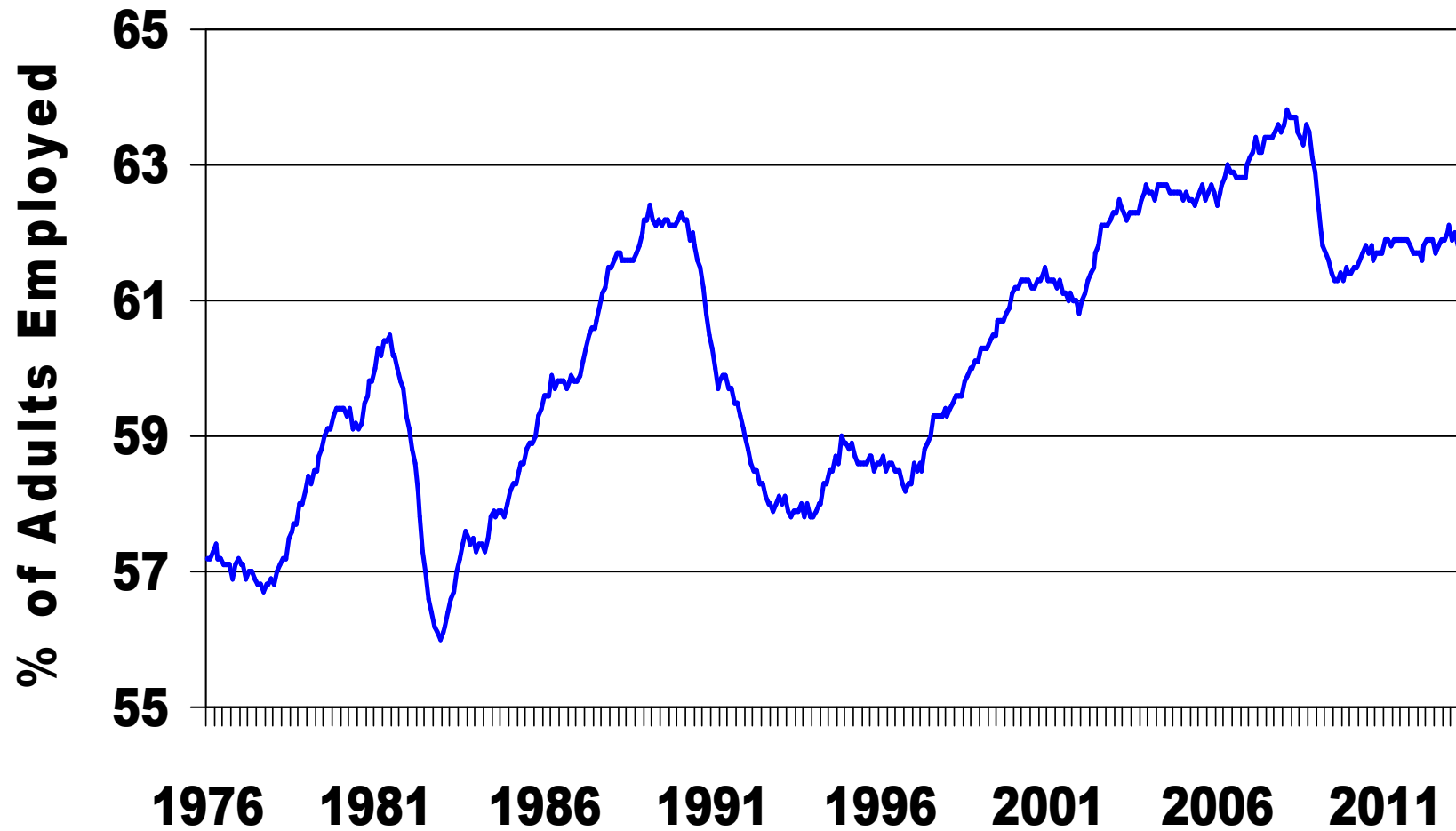
- Job creation
- Job creation
- Job creation
- Interest rates and affordability
- Other stuff

Employment in Canada



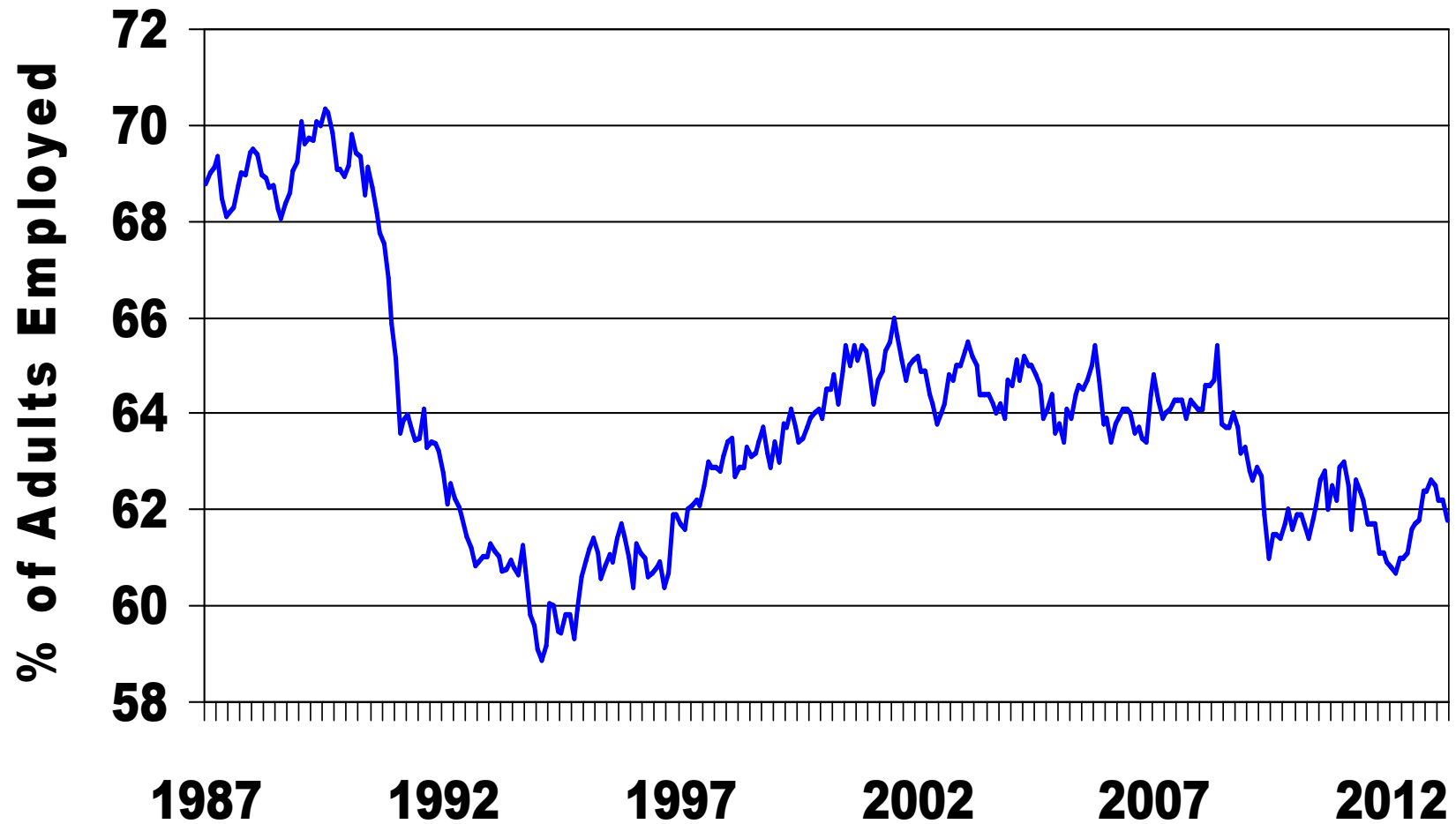
Source: Statistics Canada

“Employment Rate” for Canada



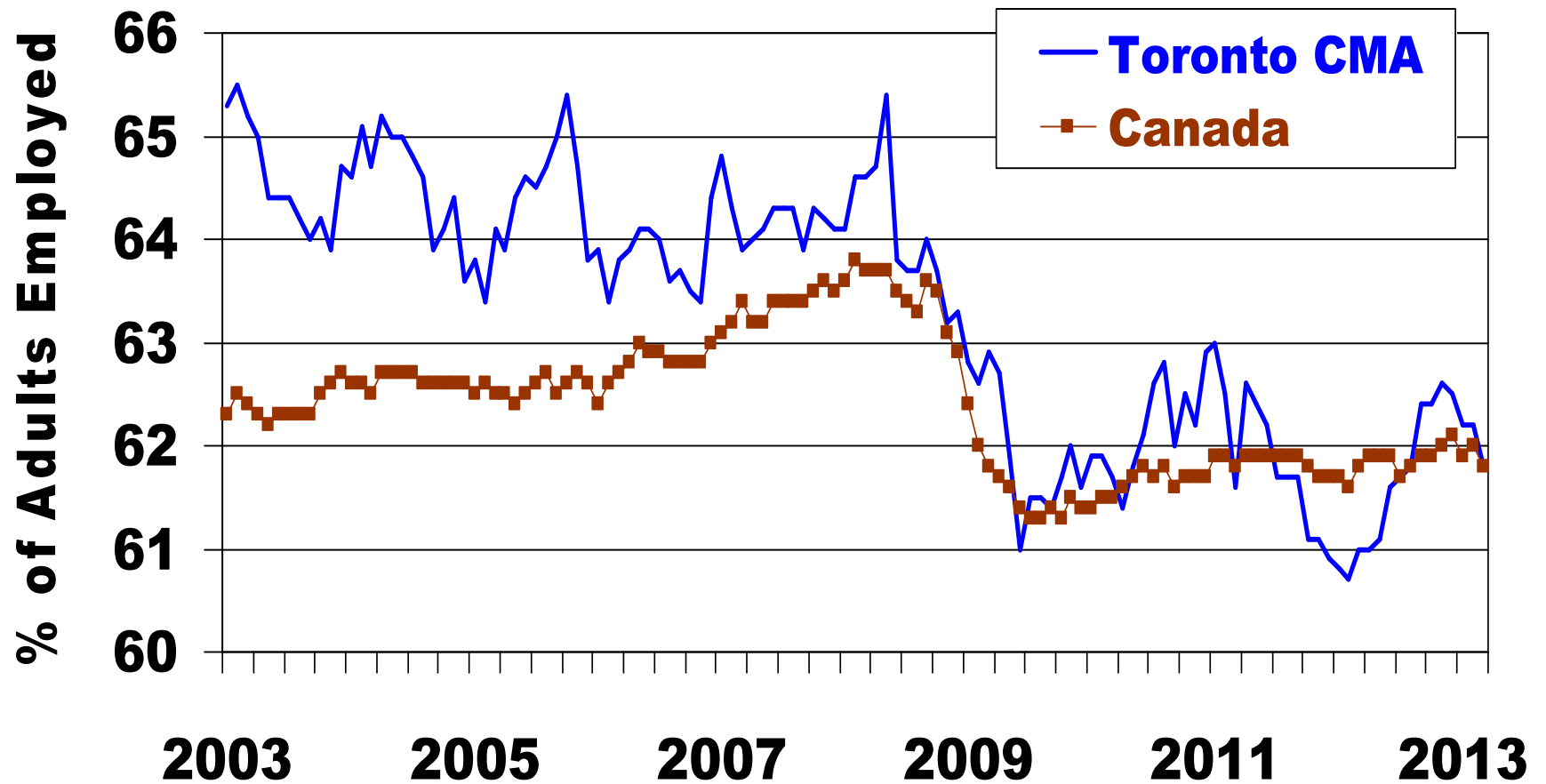
Source: Statistics Canada

“Employment Rate” for Toronto CMA



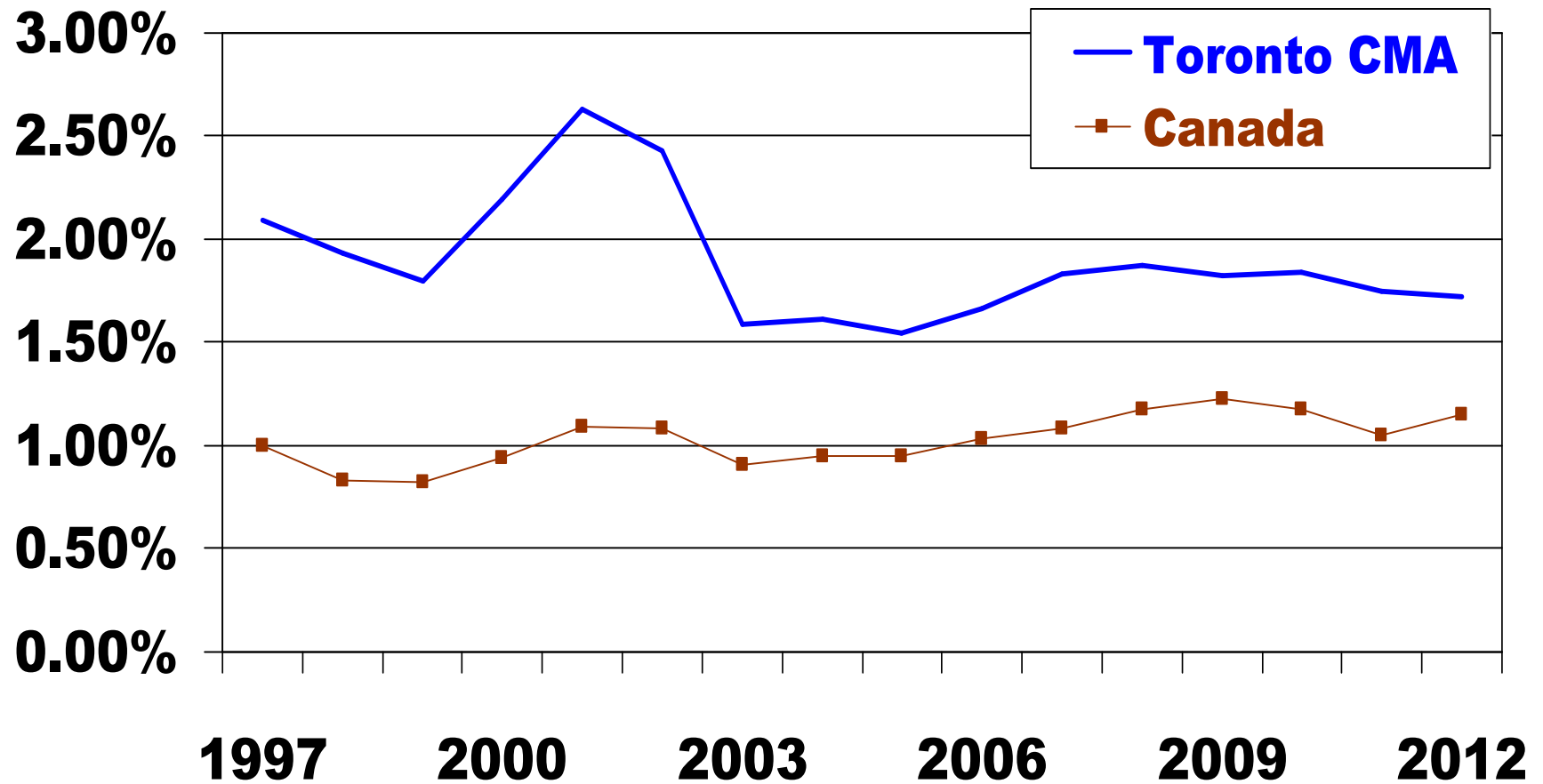
Source: Statistics Canada

“Employment Rates” for Canada and Toronto CMA



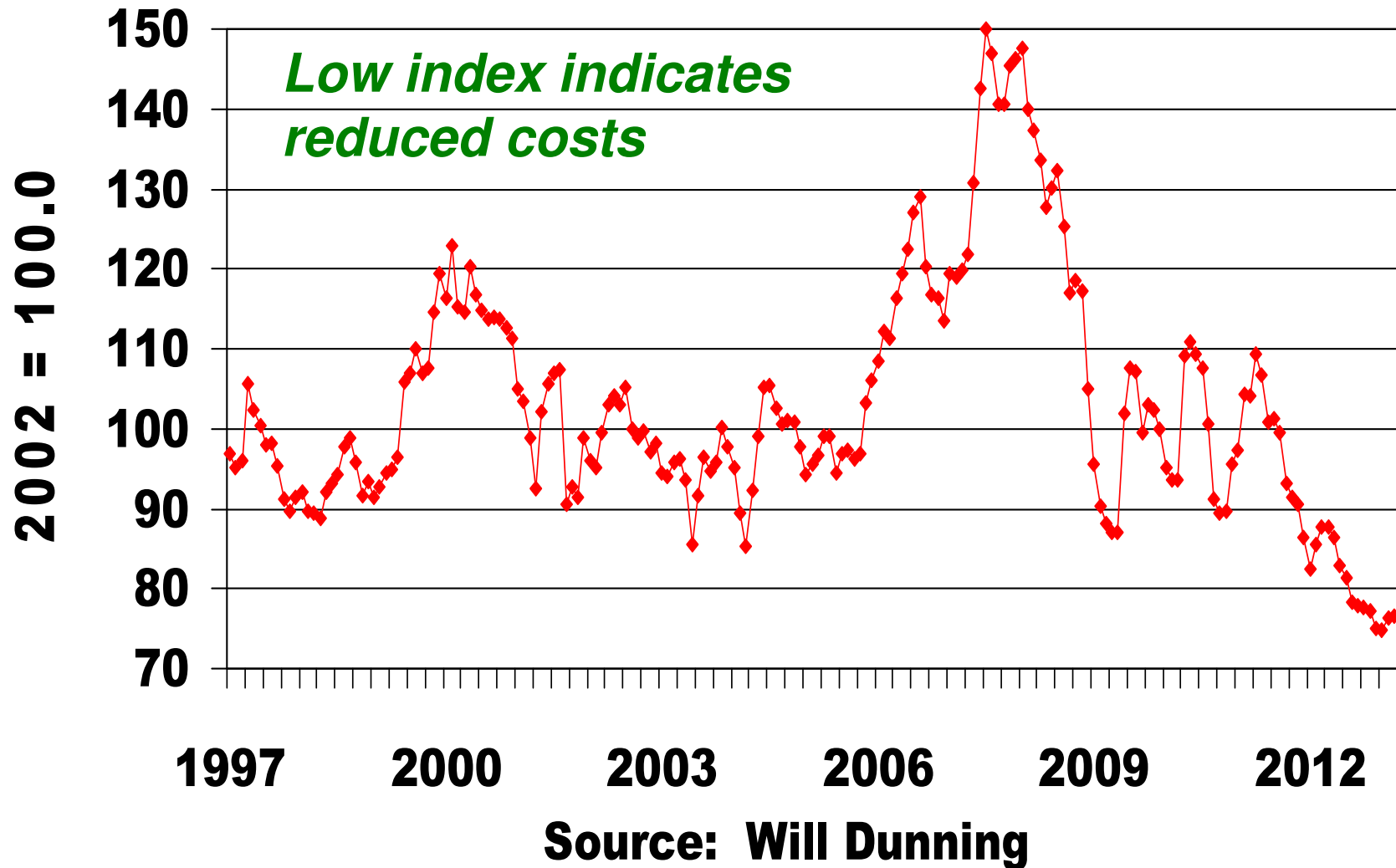
Source: Statistics Canada

Population Growth Rates for Canada and Toronto CMA

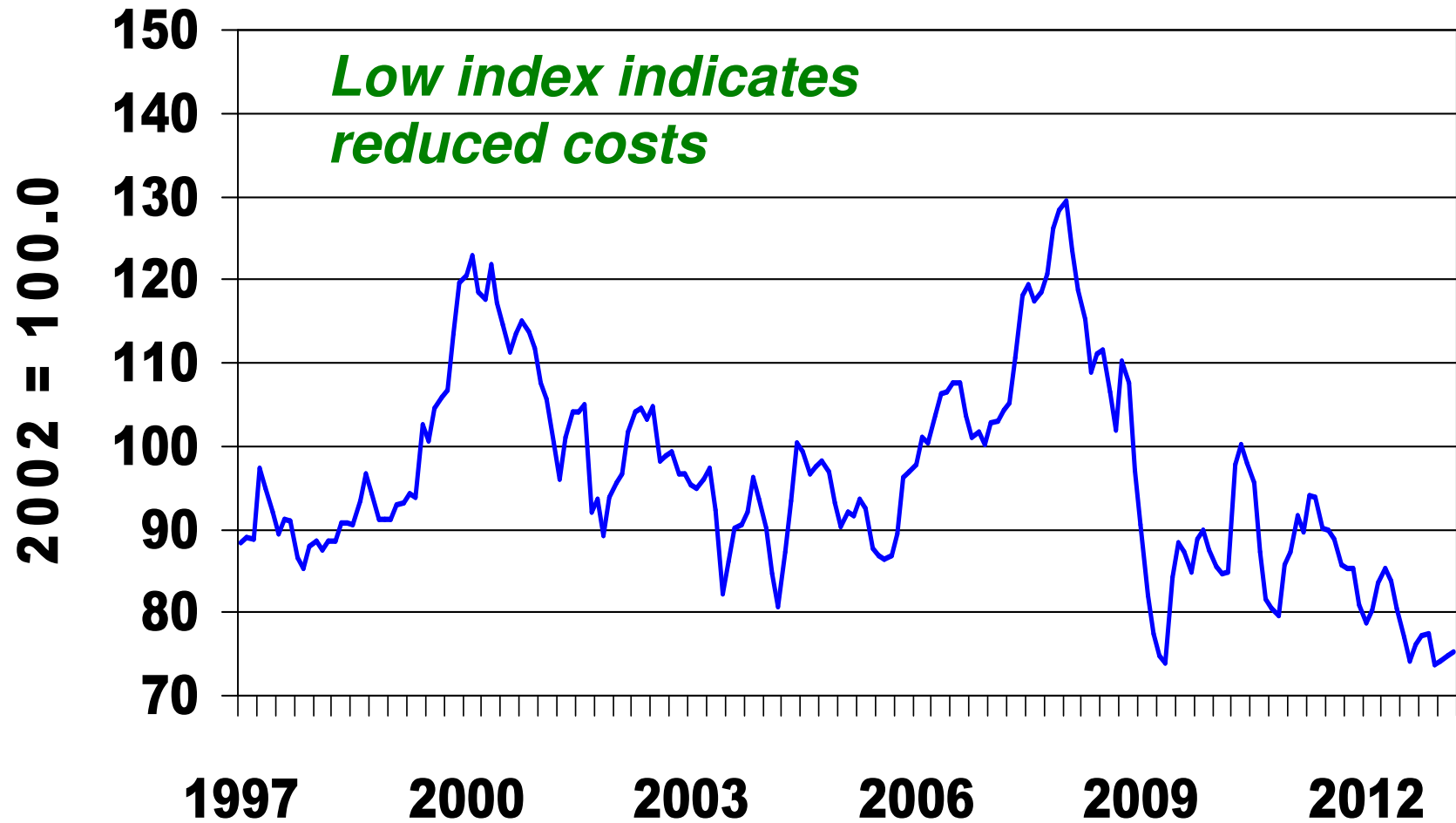


Source: Statistics Canada

Housing Affordability Index for Canada



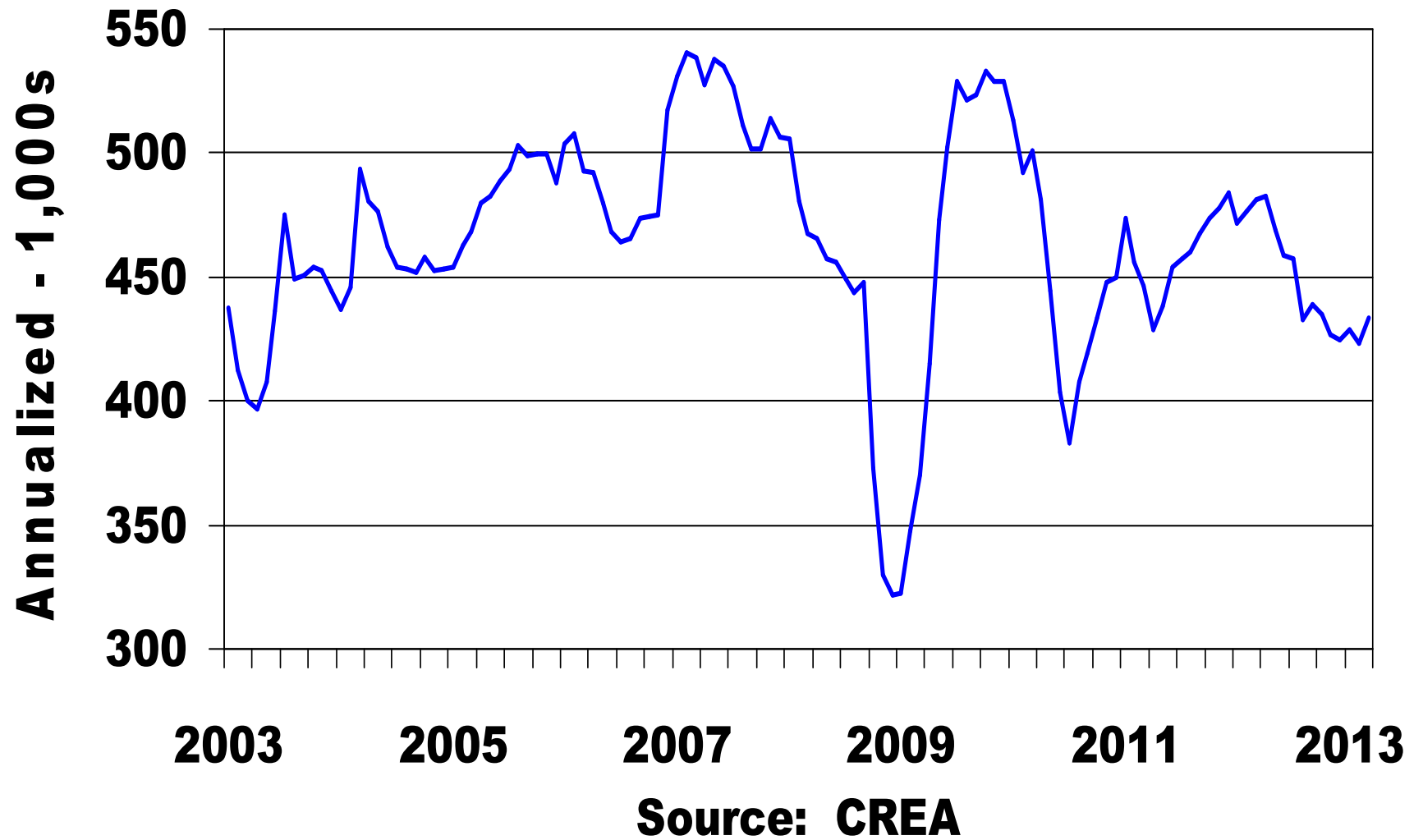
Housing Affordability Index for the GTA



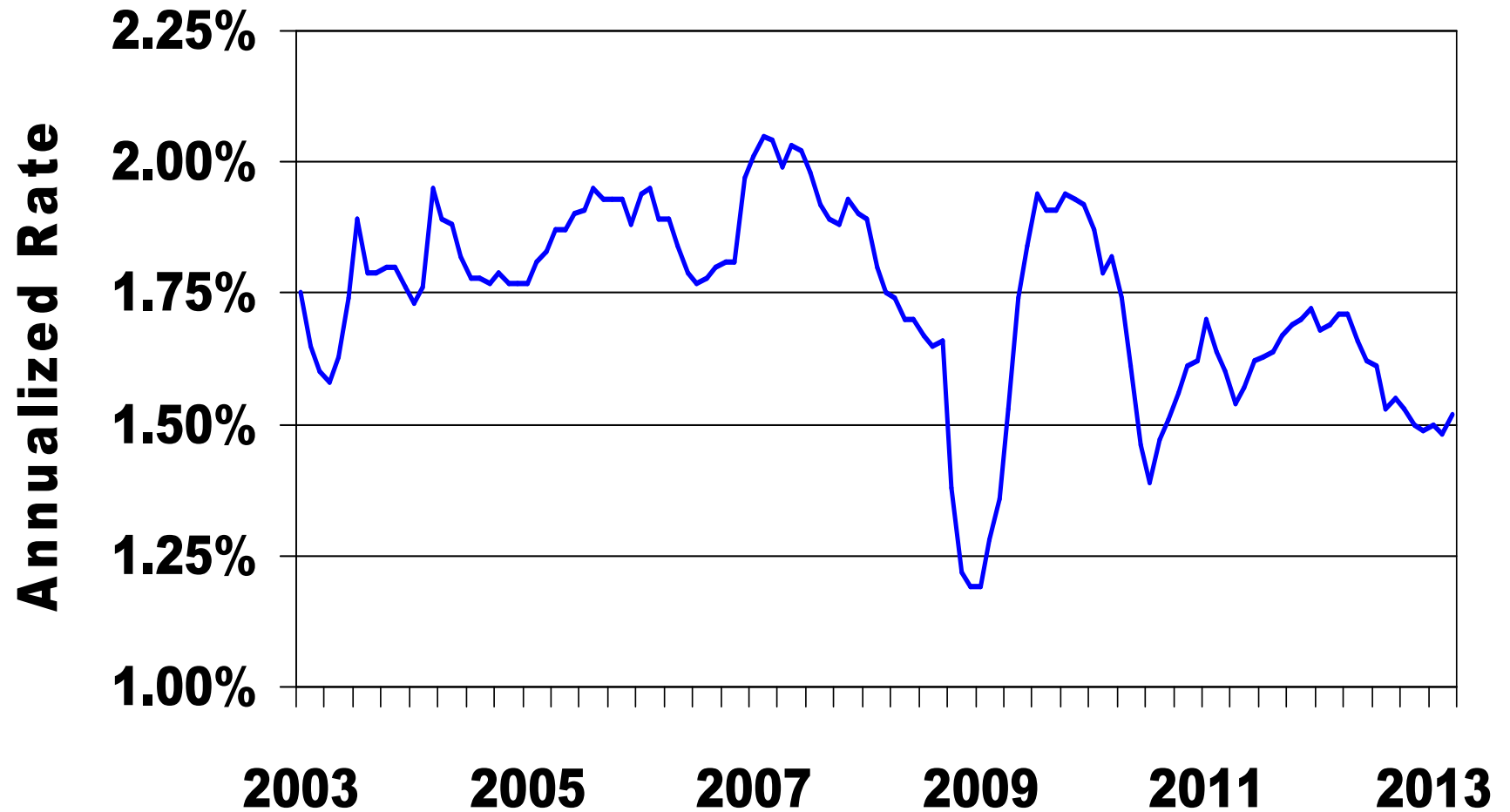
Source: Will Dunning

Resale Market Indicators

Resale Activity in Canada

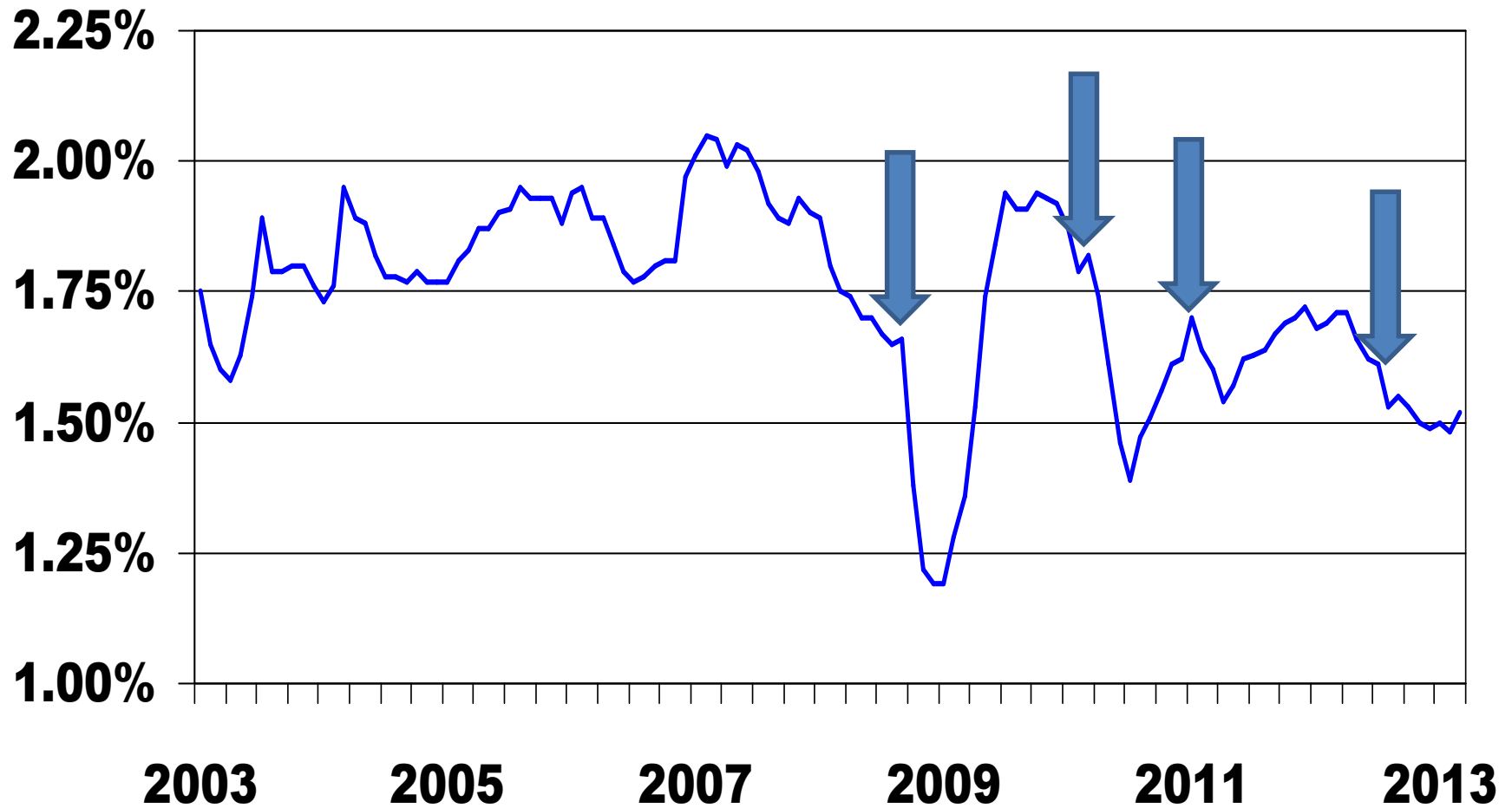


Per Adult Resale Activity in Canada



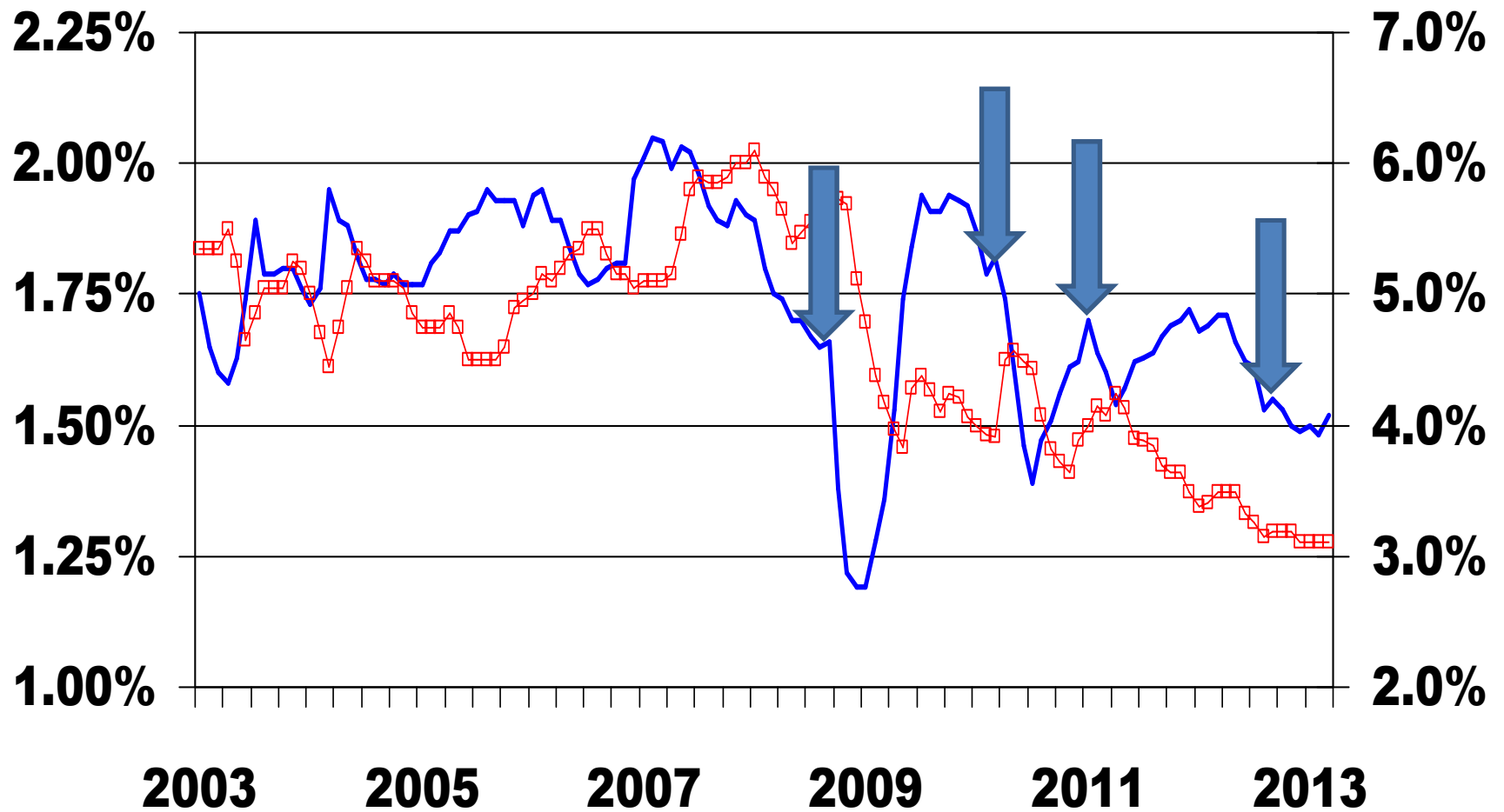
Source: CREA / StatsCan / Will Dunning

Impacts of Changed Mortgage Insurance Rules is a Hot Issue



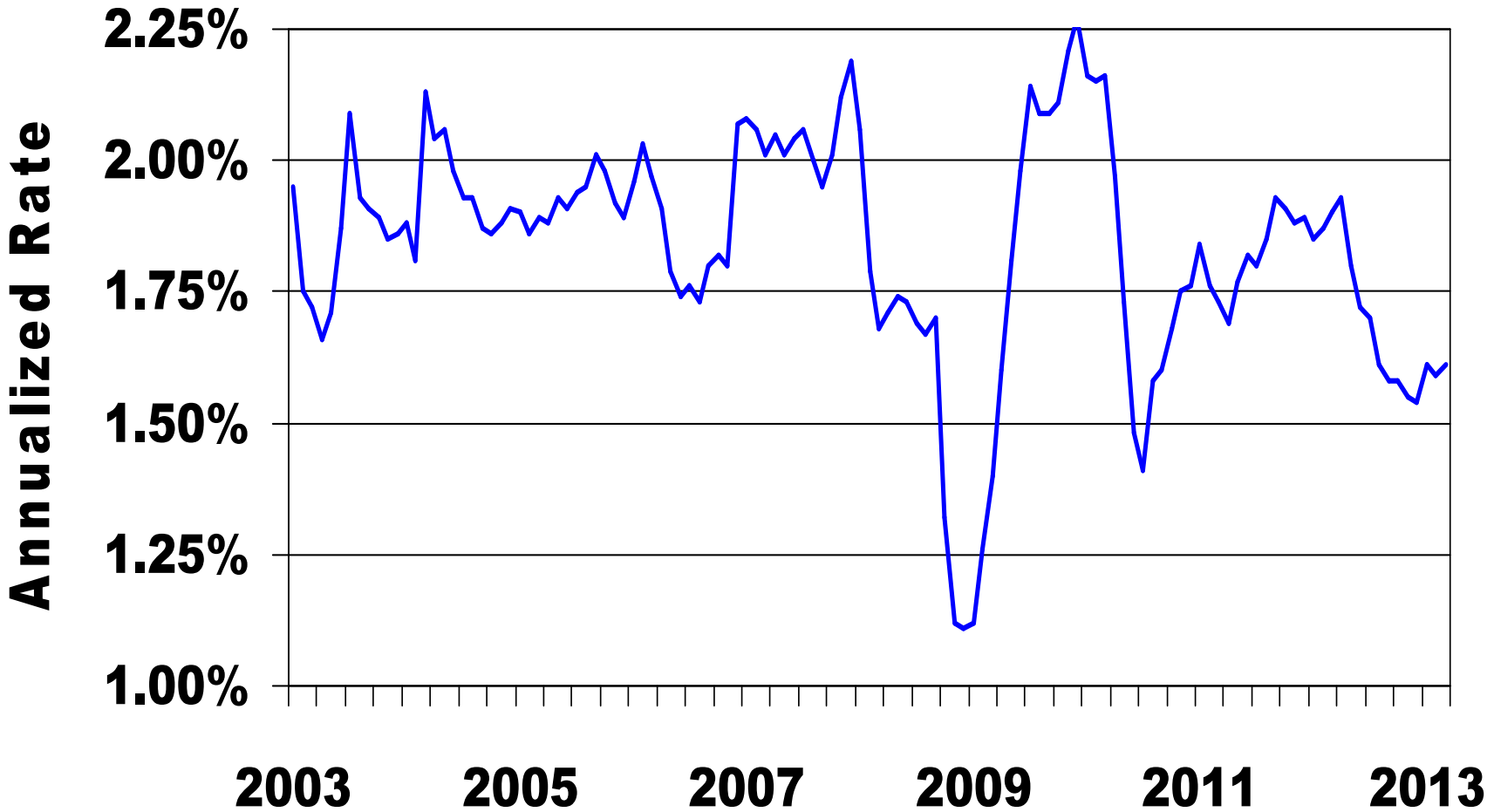
Source: CREA / StatsCan / Will Dunning

First 3 Changes Coincided With Other Causes



Source: CREA / StatsCan / Will Dunning

Per Adult Resale Activity in the GTA

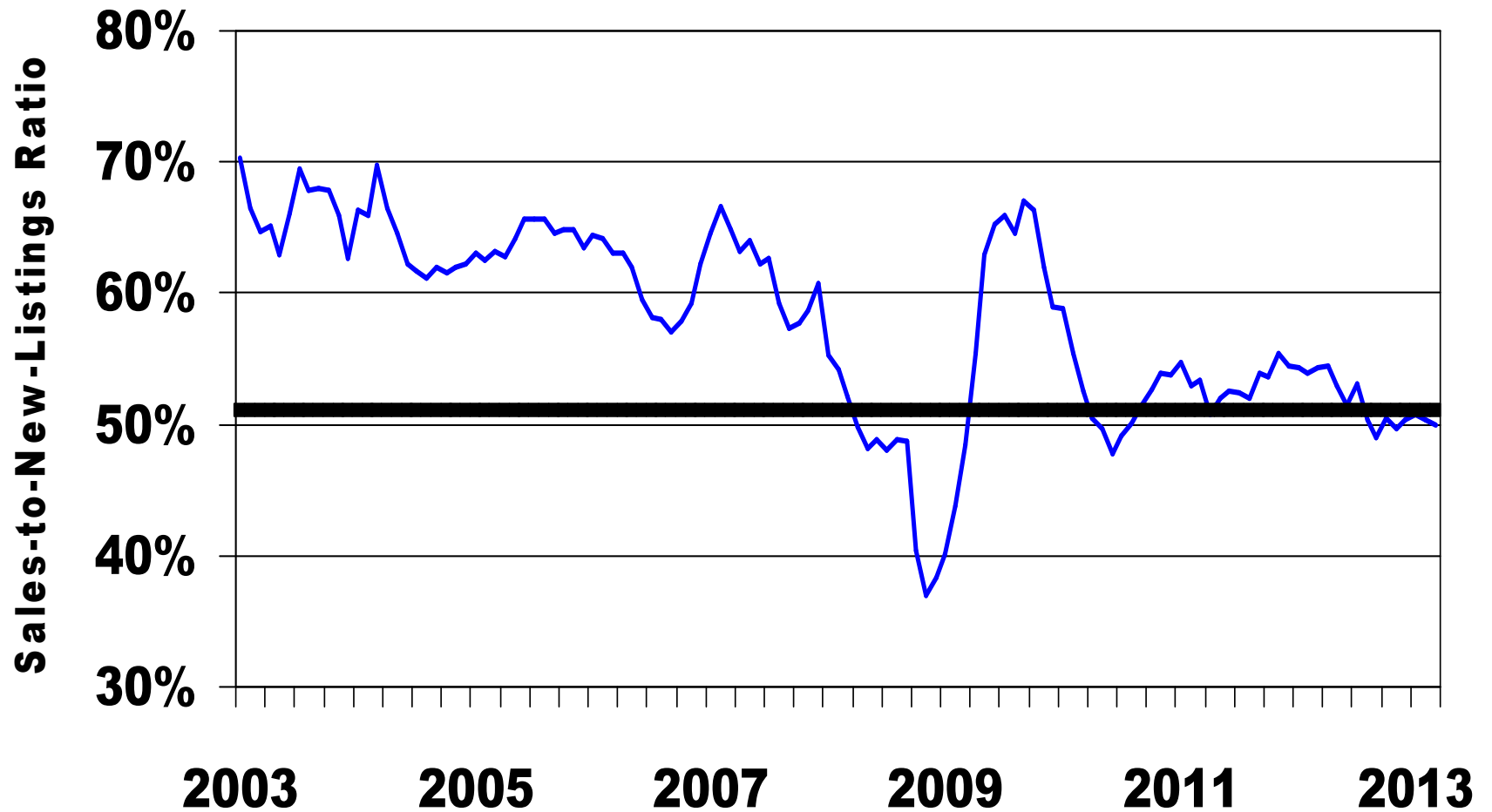


Source: CREA / StatsCan / Will Dunning

Analysis for CAAMP

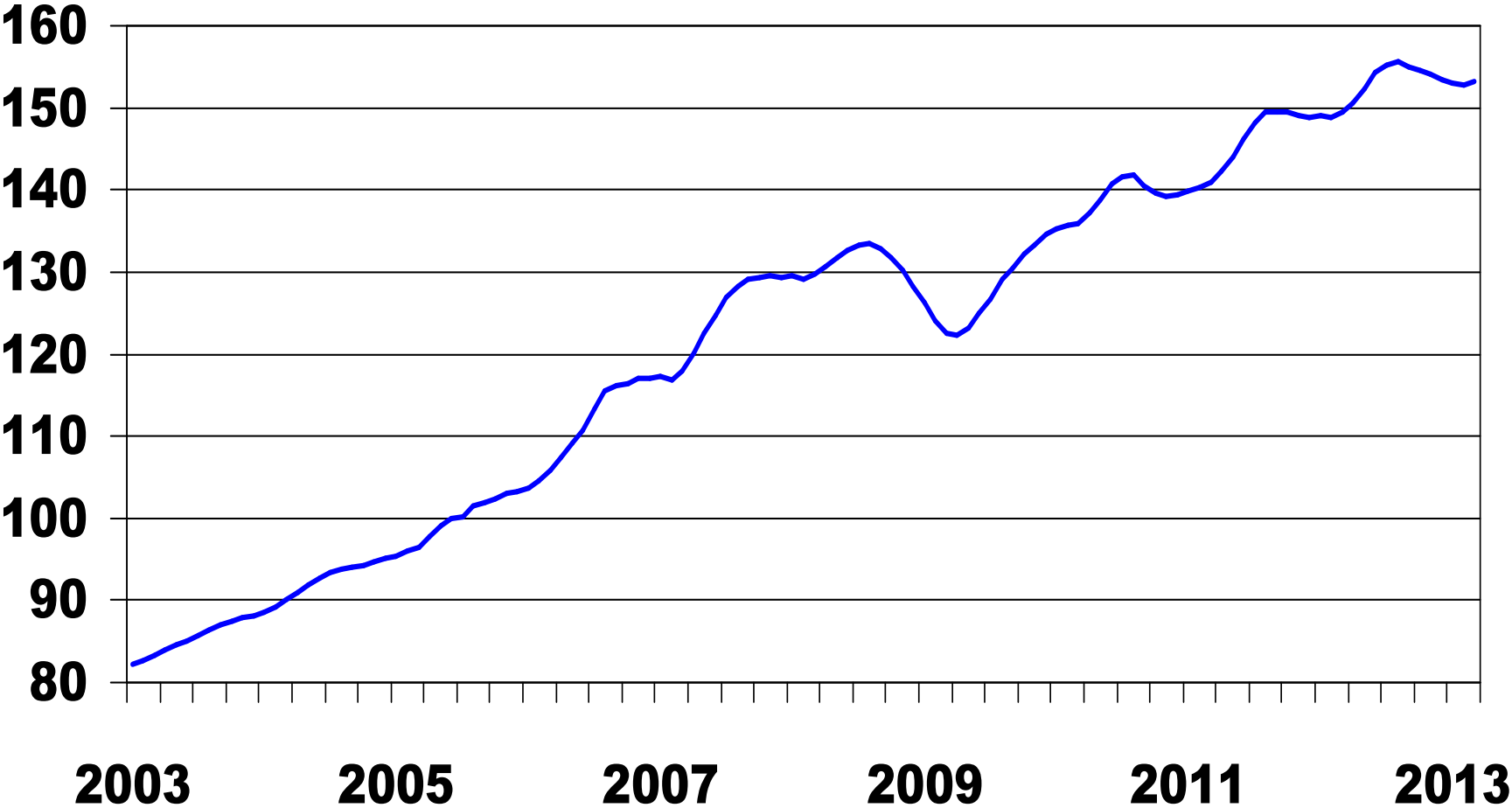
- Using a huge database of high ratio mortgages from 2010
- Simulated impacts of changes on mortgage qualification
 - Elimination of amortization periods > 25 years (July 2012) has a very large impact.
 - Prior changes have minor impacts
- Moreover, no economic factors existed that should have caused the housing downturn in summer 2012
- July 2012 change brought a “policy-induced housing market downturn”

Shifting State of Balance in Canada



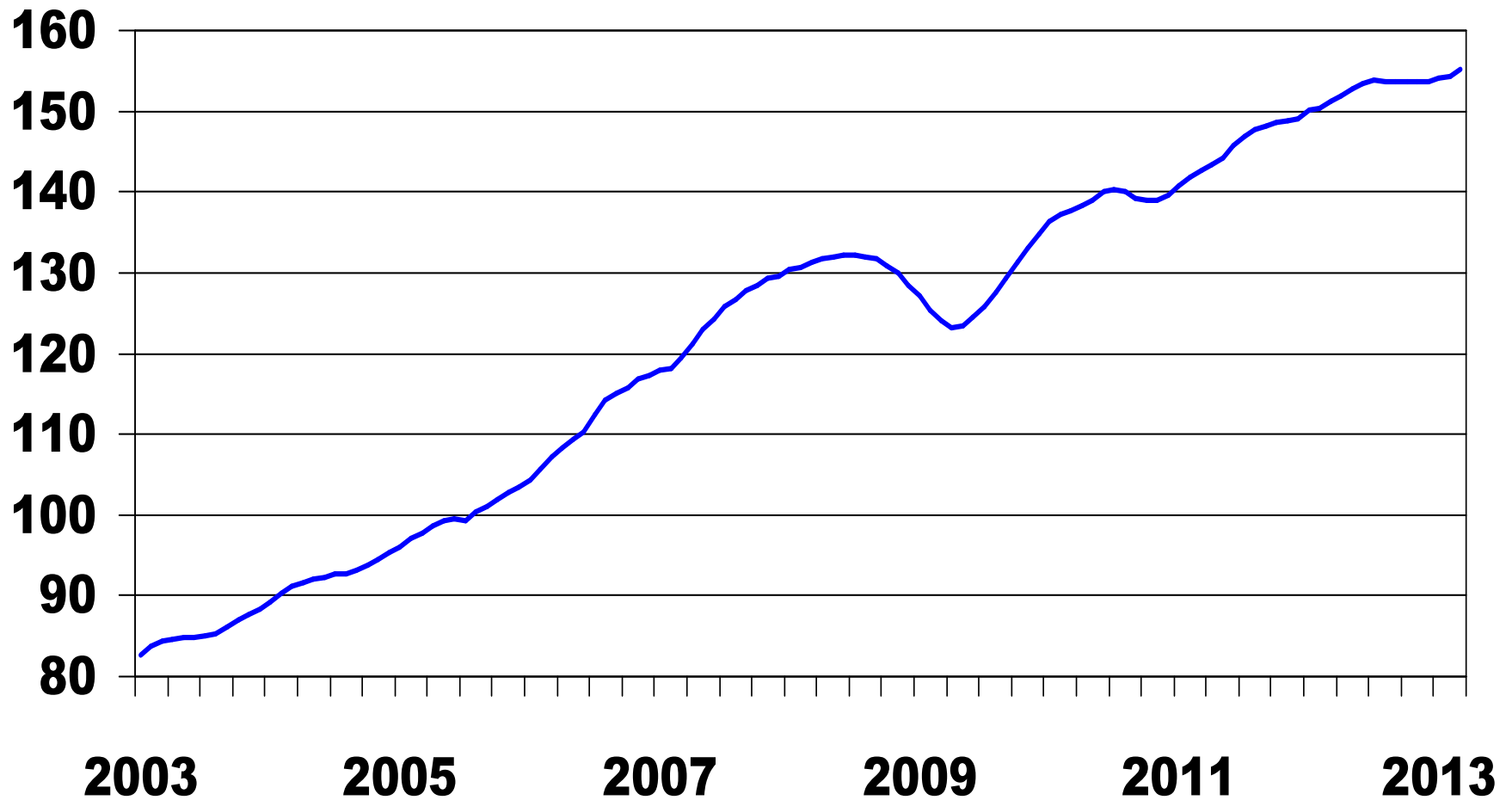
Source: CREA / Will Dunning

Teranet House Price Index – As Published



Source: Teranet / National Bank

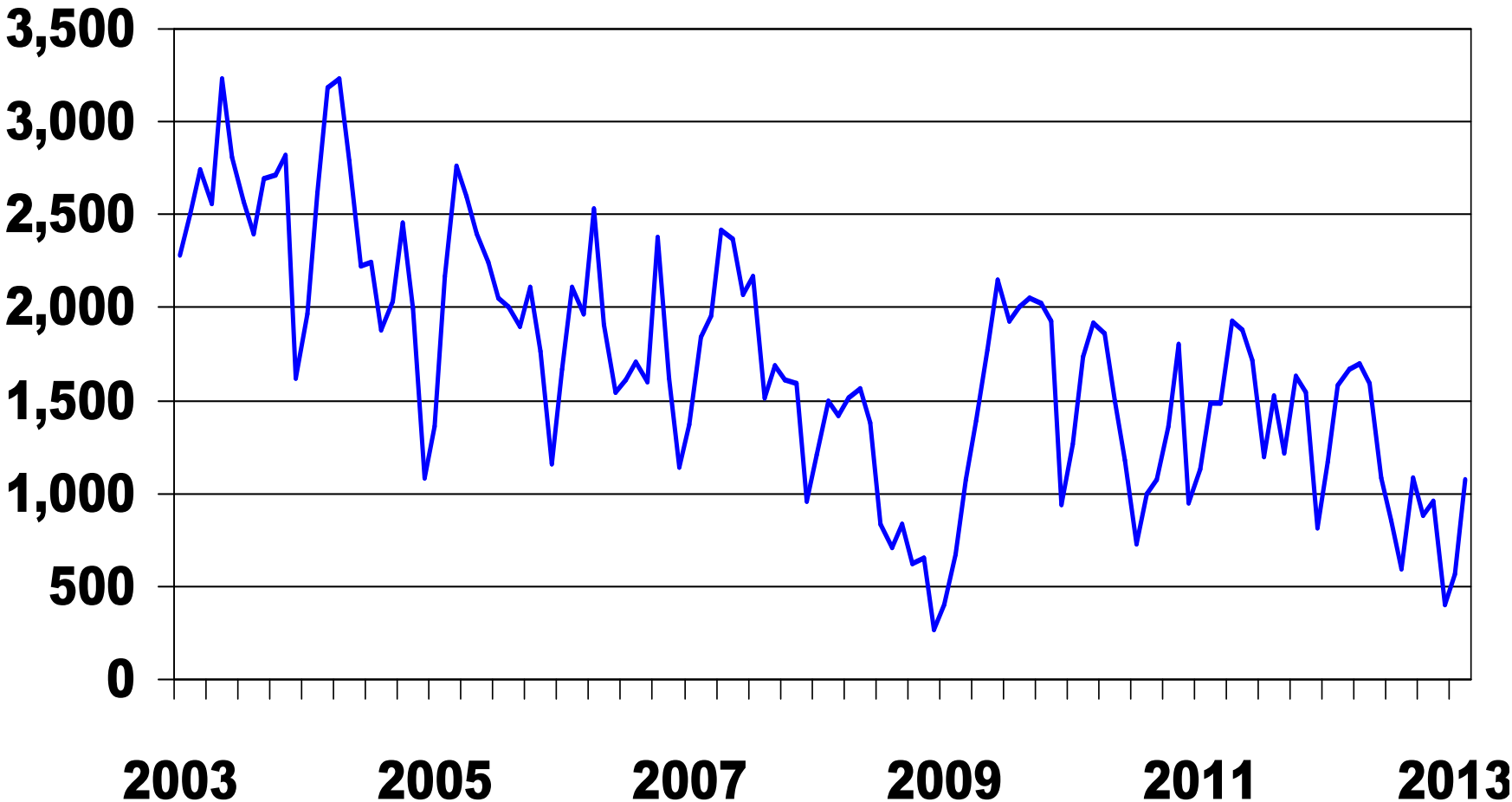
Teranet Index – Seasonally-Adjusted by WD



Source: Teranet / National Bank / Will Dunning

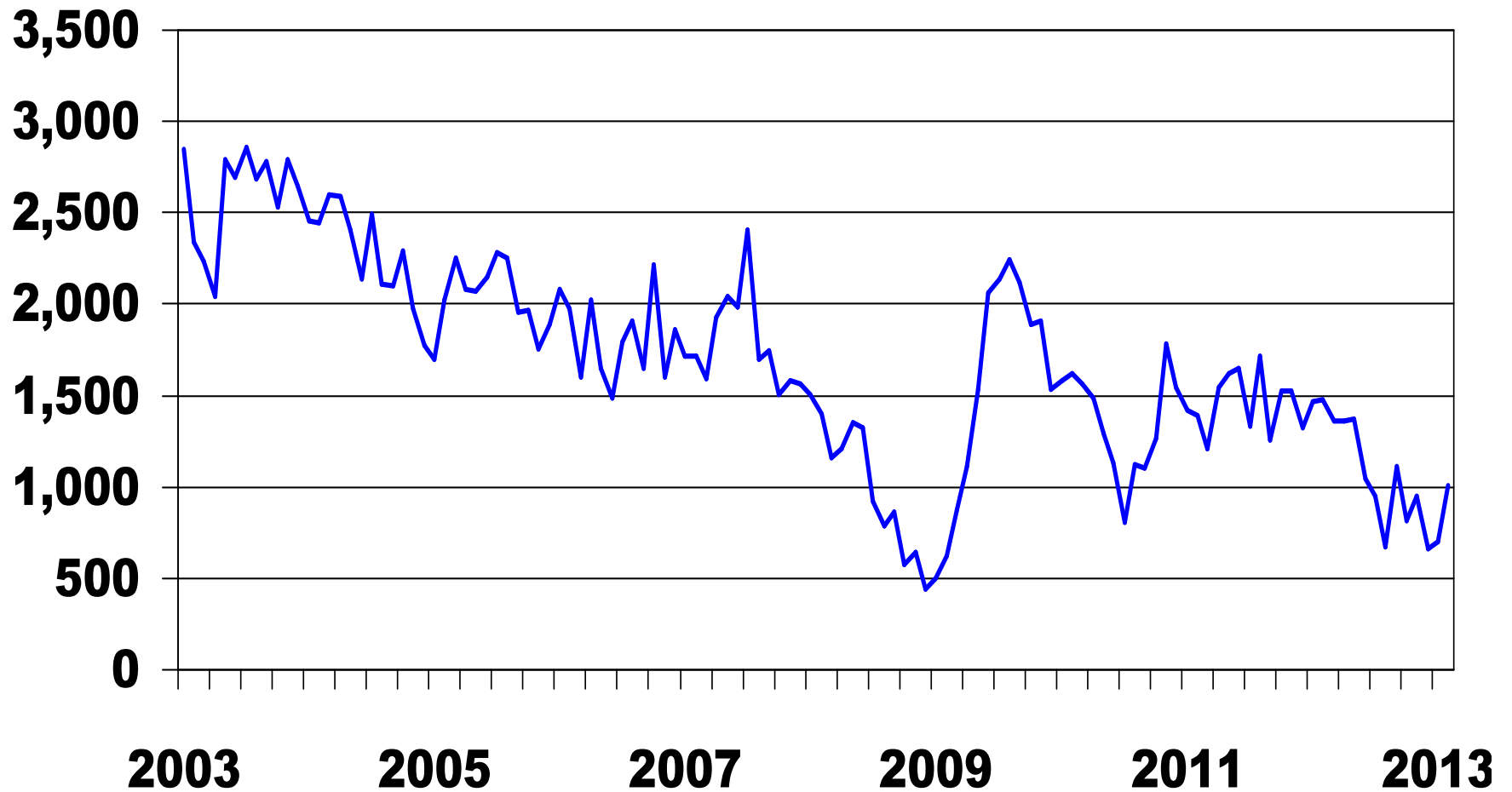
GTA New Homes Market

New Low-Rise Sales – as Reported



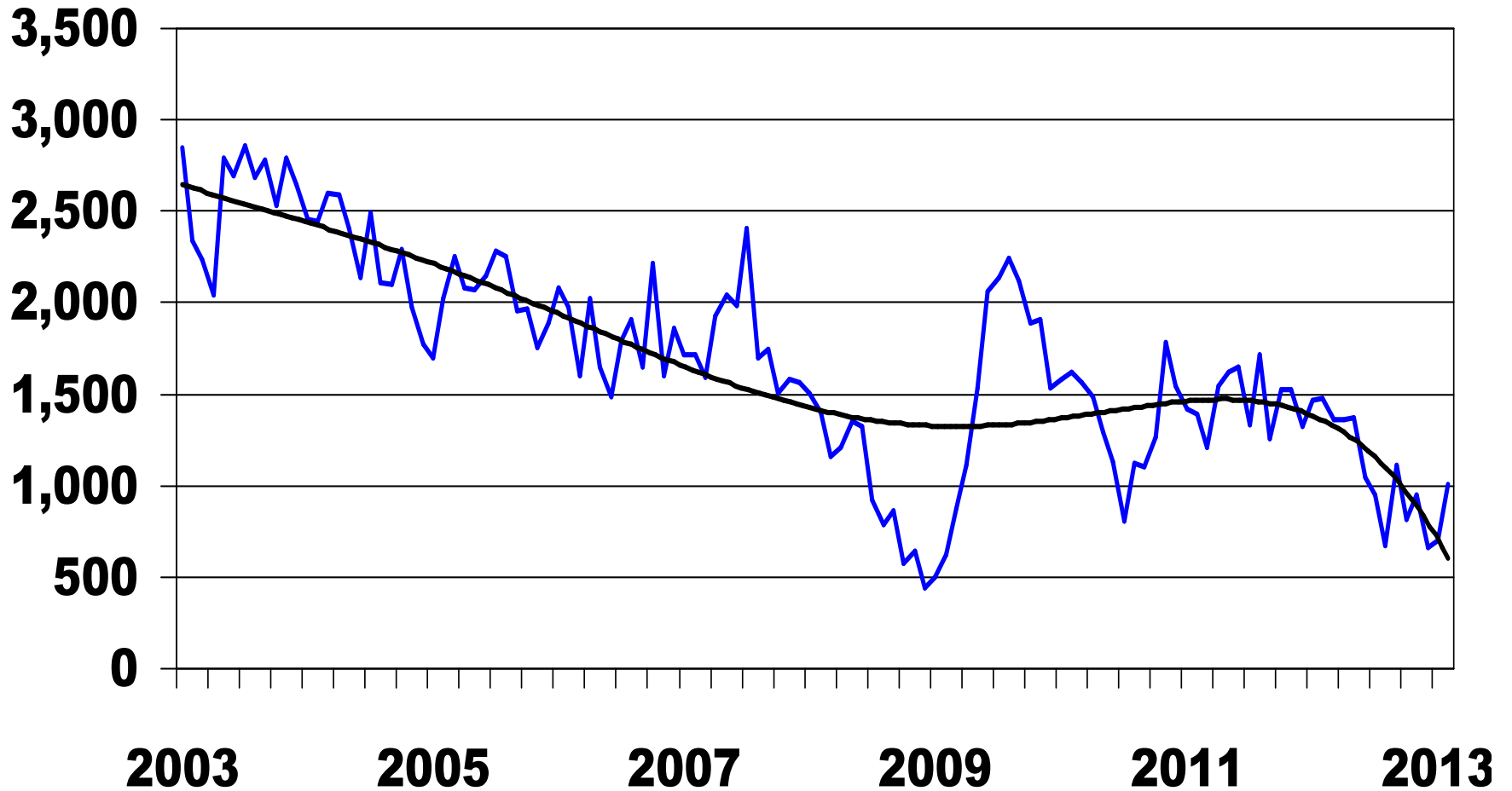
Source: RealNet-BILD / Will Dunning

New Low-Rise Sales – Seasonally-Adjusted



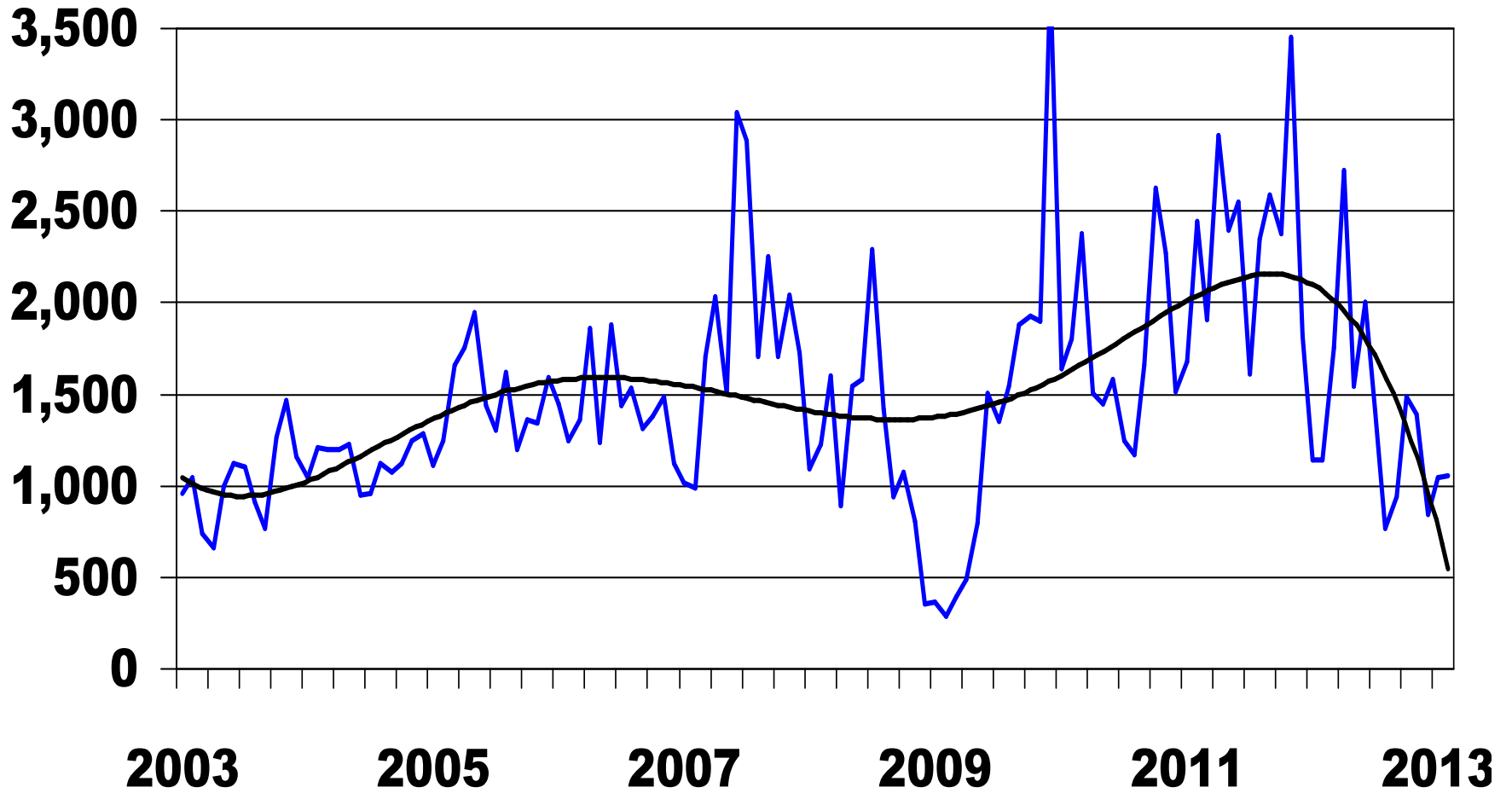
Source: RealNet-BILD / Will Dunning

Low-Rise Trend – Recent Sharp Drop



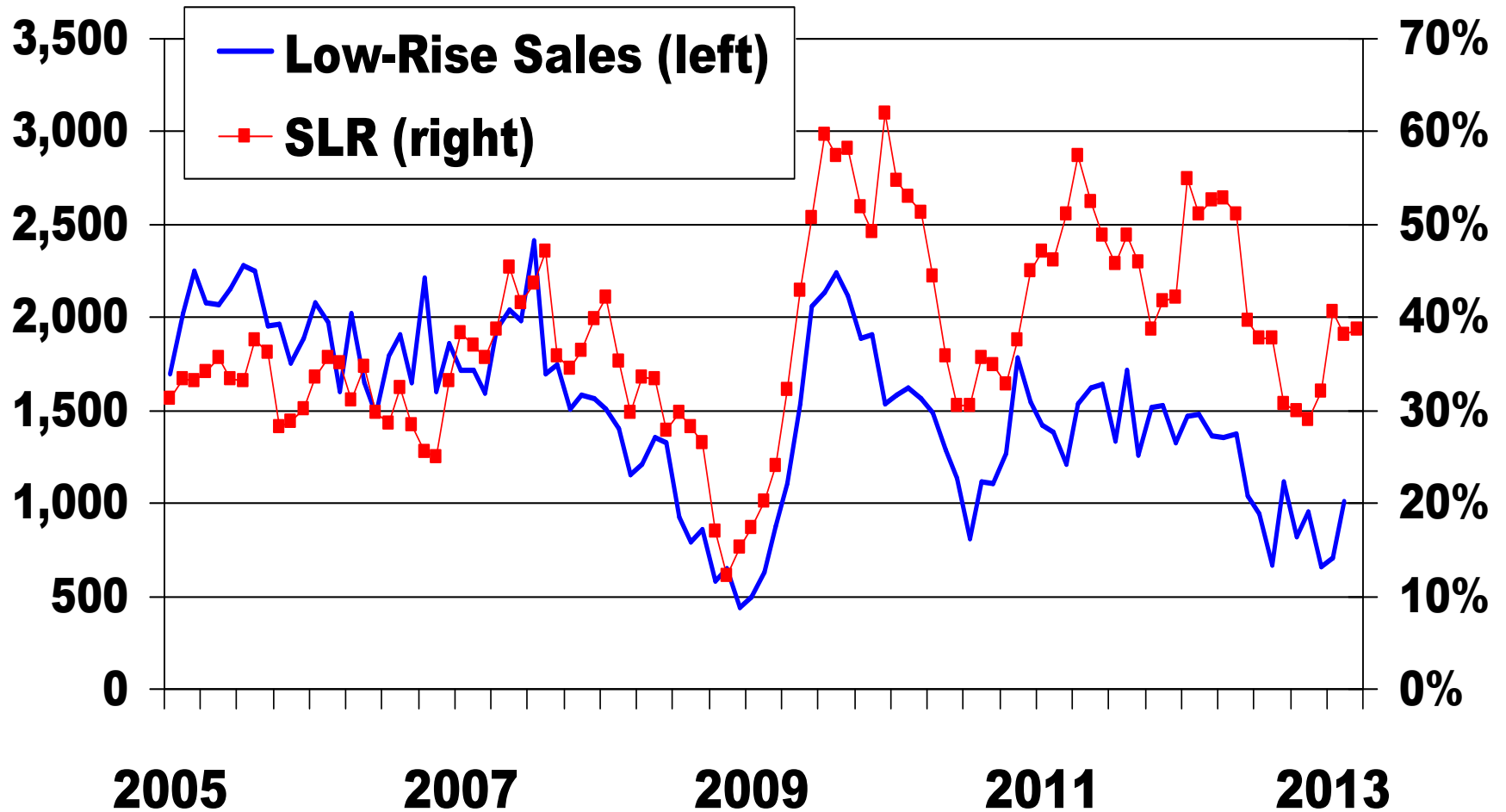
Source: RealNet-BILD / Will Dunning

High-Rise Trend – Also a Recent Sharp Drop



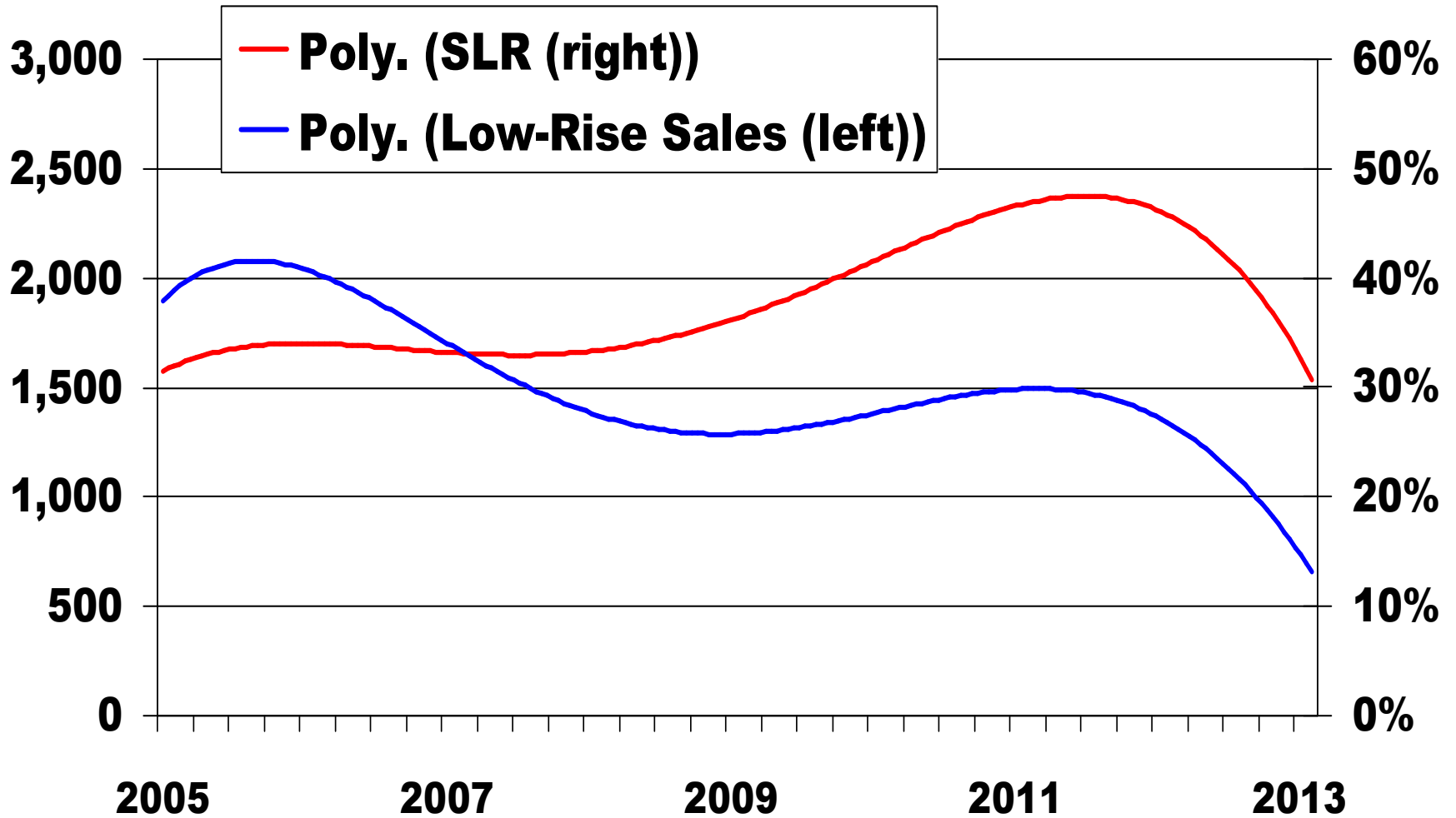
Source: RealNet-BILD / Will Dunning

Shifting Influence of the Resale Market



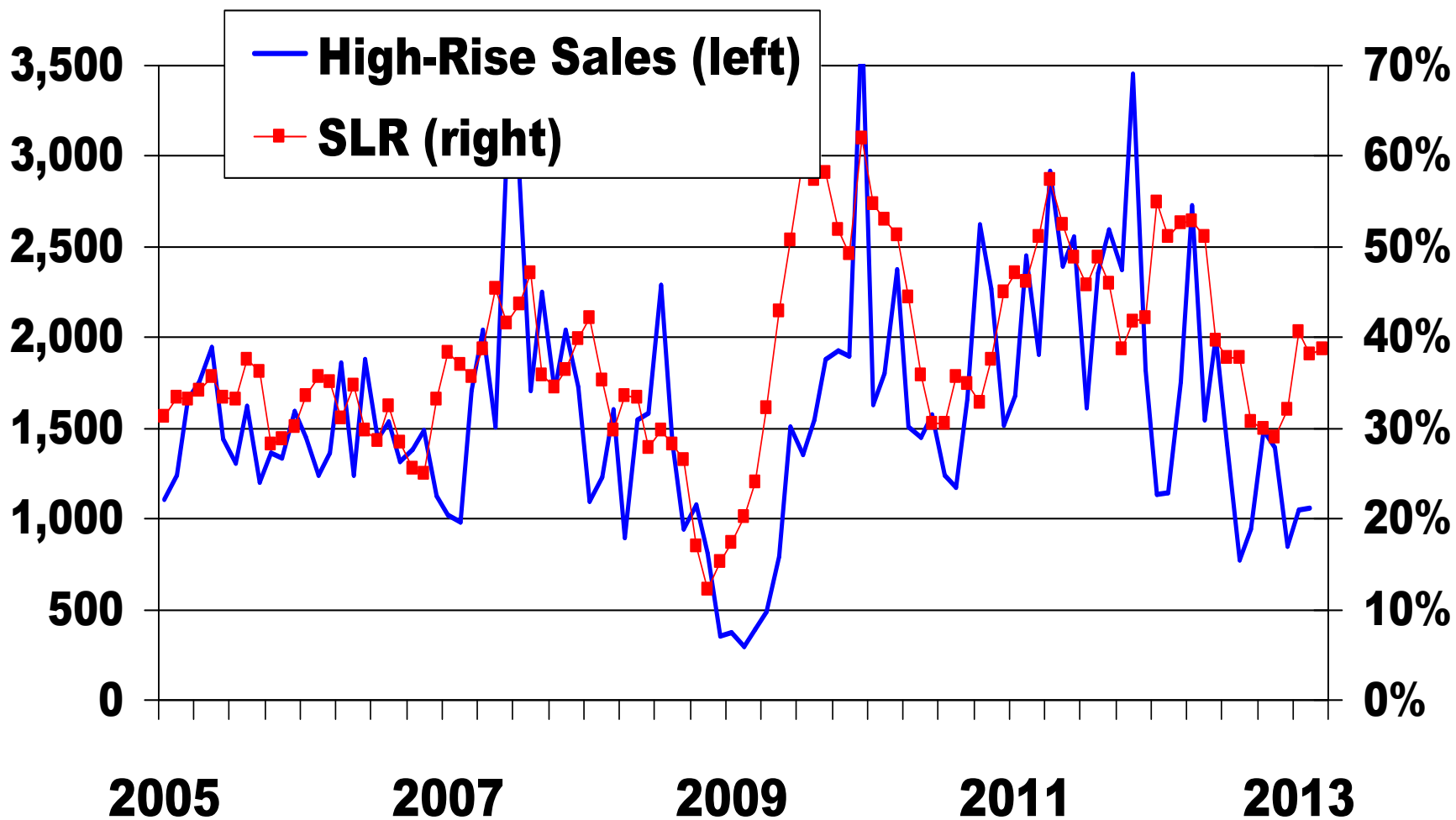
Source: RealNet-BILD / Will Dunning

Trends in the Low-Rise Market



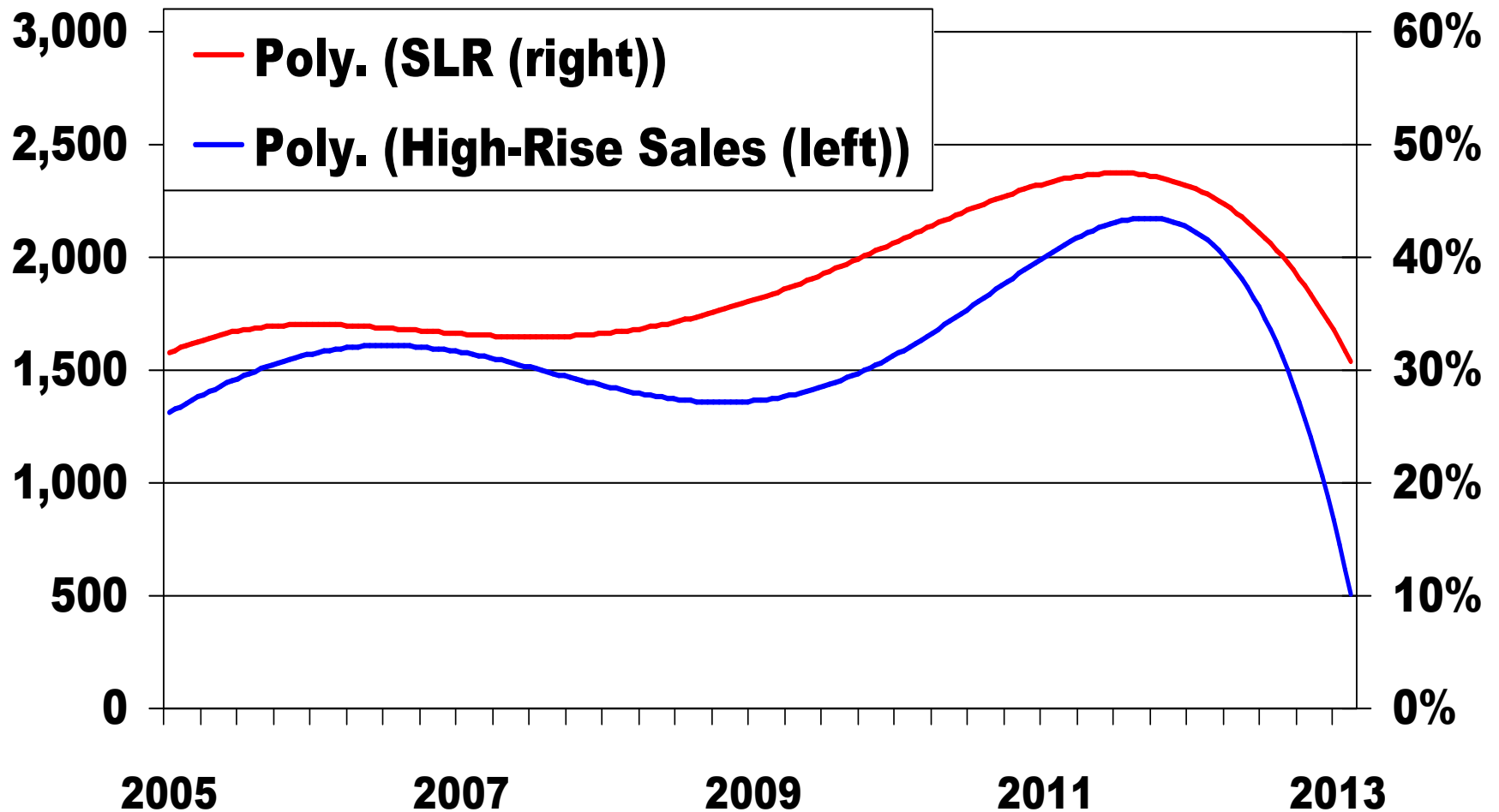
Source: RealNet-BILD / Will Dunning

For High-Rises



Source: RealNet-BILD / Will Dunning

Stable Relationship for High-Rises

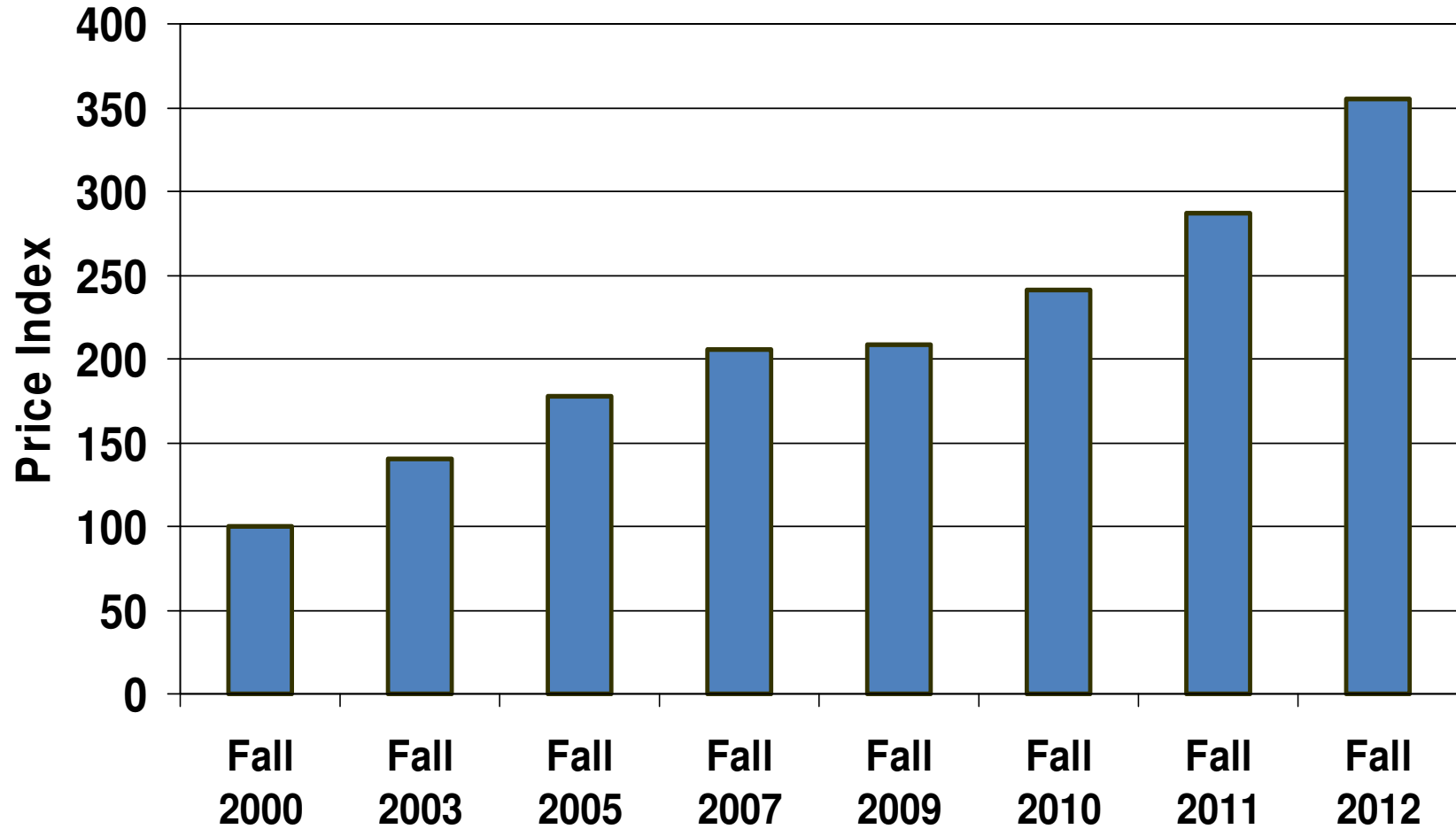


Source: RealNet-BILD / Will Dunning

Research Report Last Year

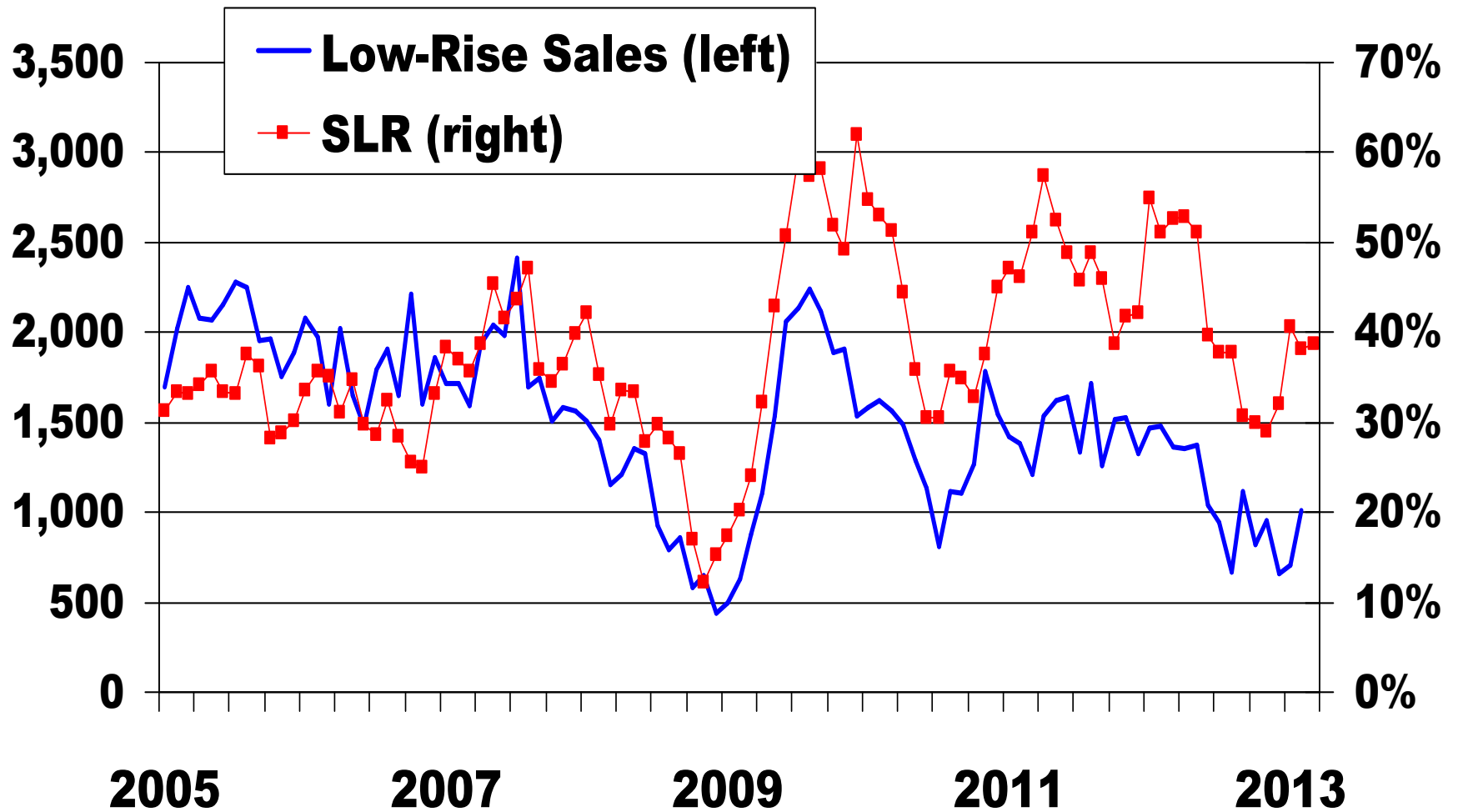
- Past 5 years low-rises 10,000 units/year below expected; high-rise activity exactly as expected.
- There must be a supply constraint in the new low-rise market.
- Prices 15% higher than they should be, due to the supply constraint.
- Supply constraint has allowed rapid growth in lot prices (and government-imposed costs).
- Reduced housing starts cost 22,000 jobs per year

Rapid Rise in Lot Prices



Source: MCAP / Will Dunning Inc.

A Second Look at Low-Rises

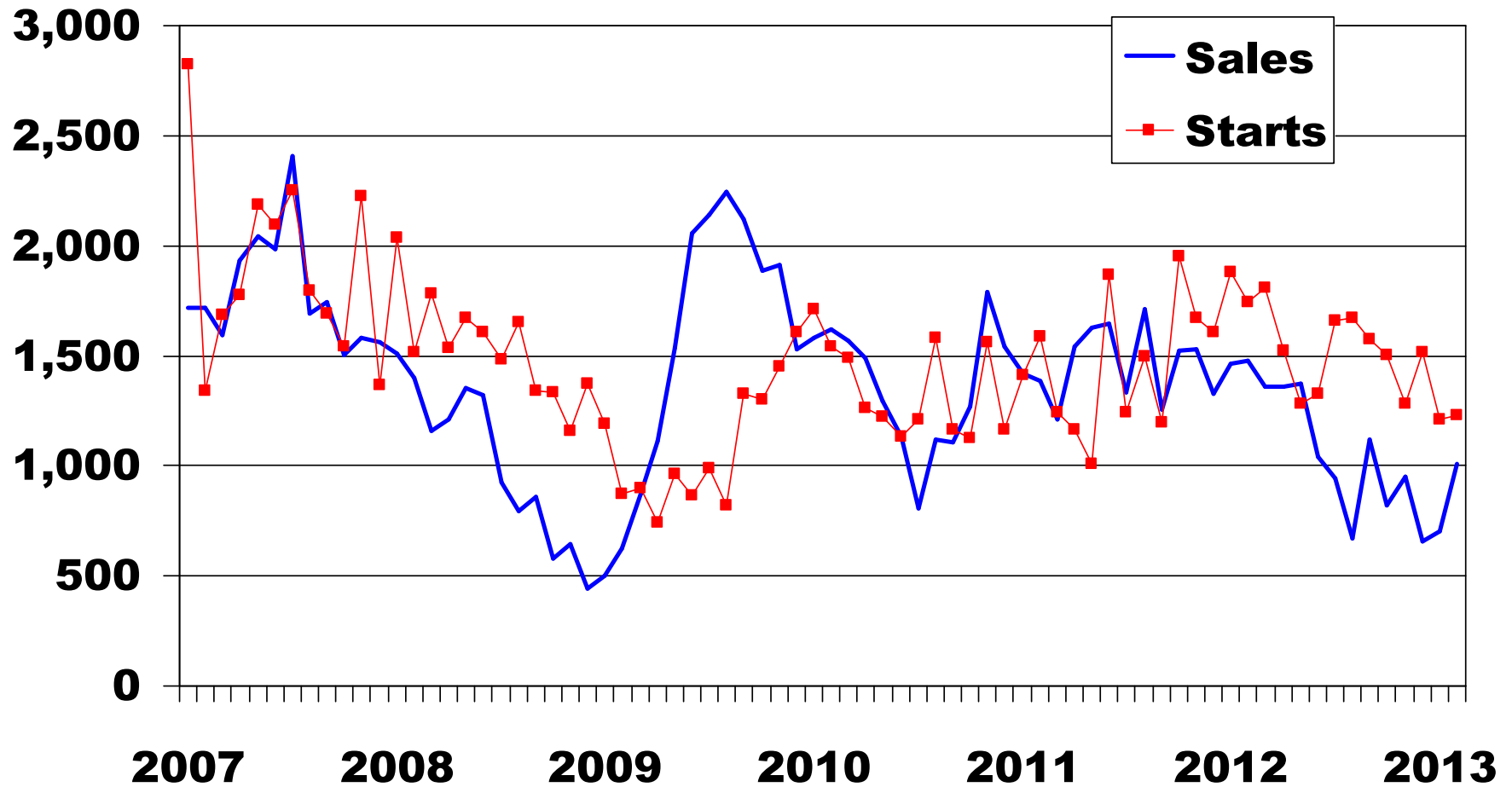


Source: RealNet-BILD / Will Dunning

Time for a New Paradigm?

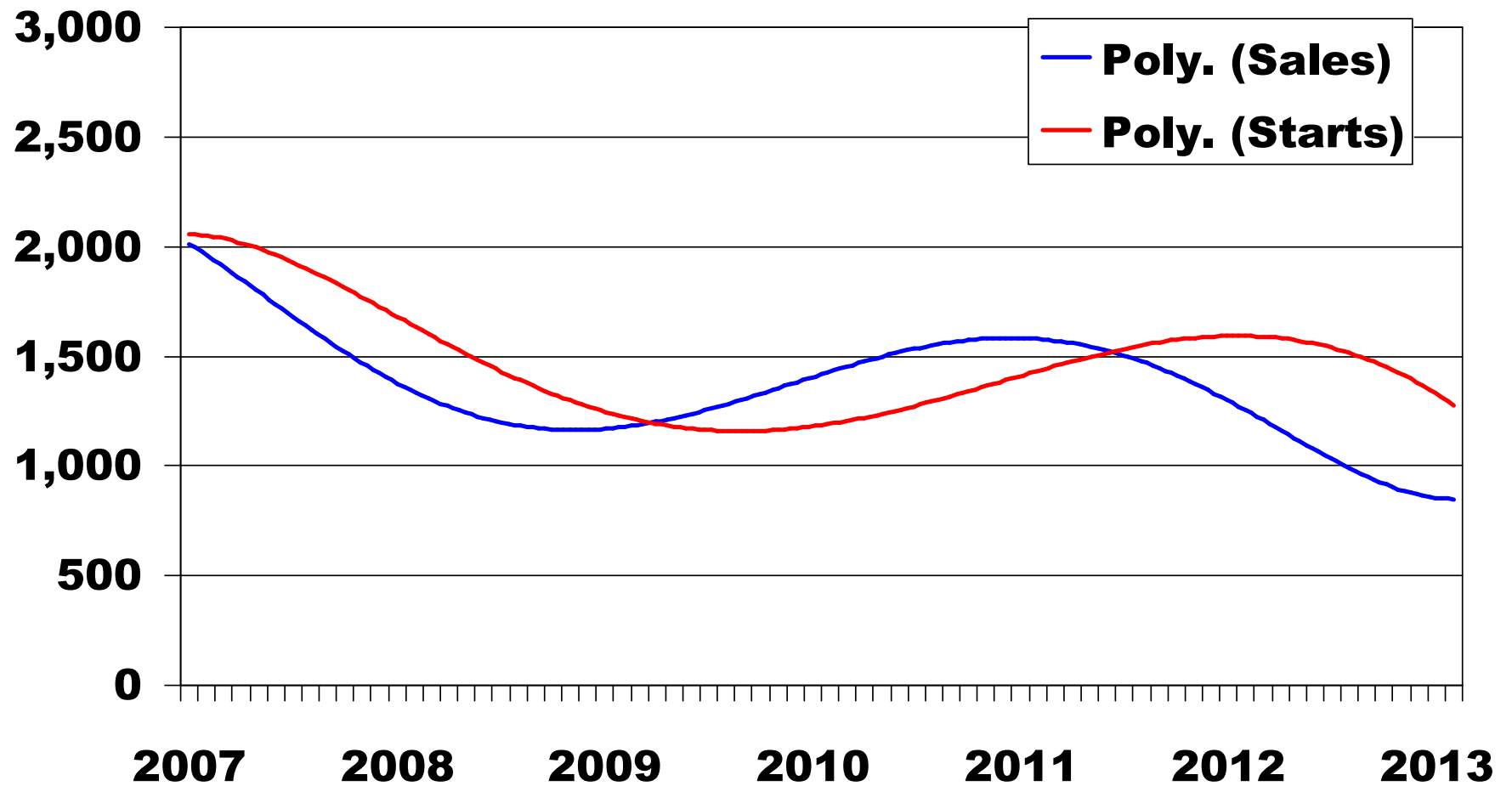
- Since last summer, low-rise sales have fallen further
 - due to reduced pressure from resale market...
- BILD reports indicate that low-rise inventory is creeping up (32% from June to Feb).
 - Is the supply issue dissipating?
- Does this mean:
 - Are prices too high for new low-rises?
 - Do lot prices need to fall?

Low-Rise Housing Starts versus Sales



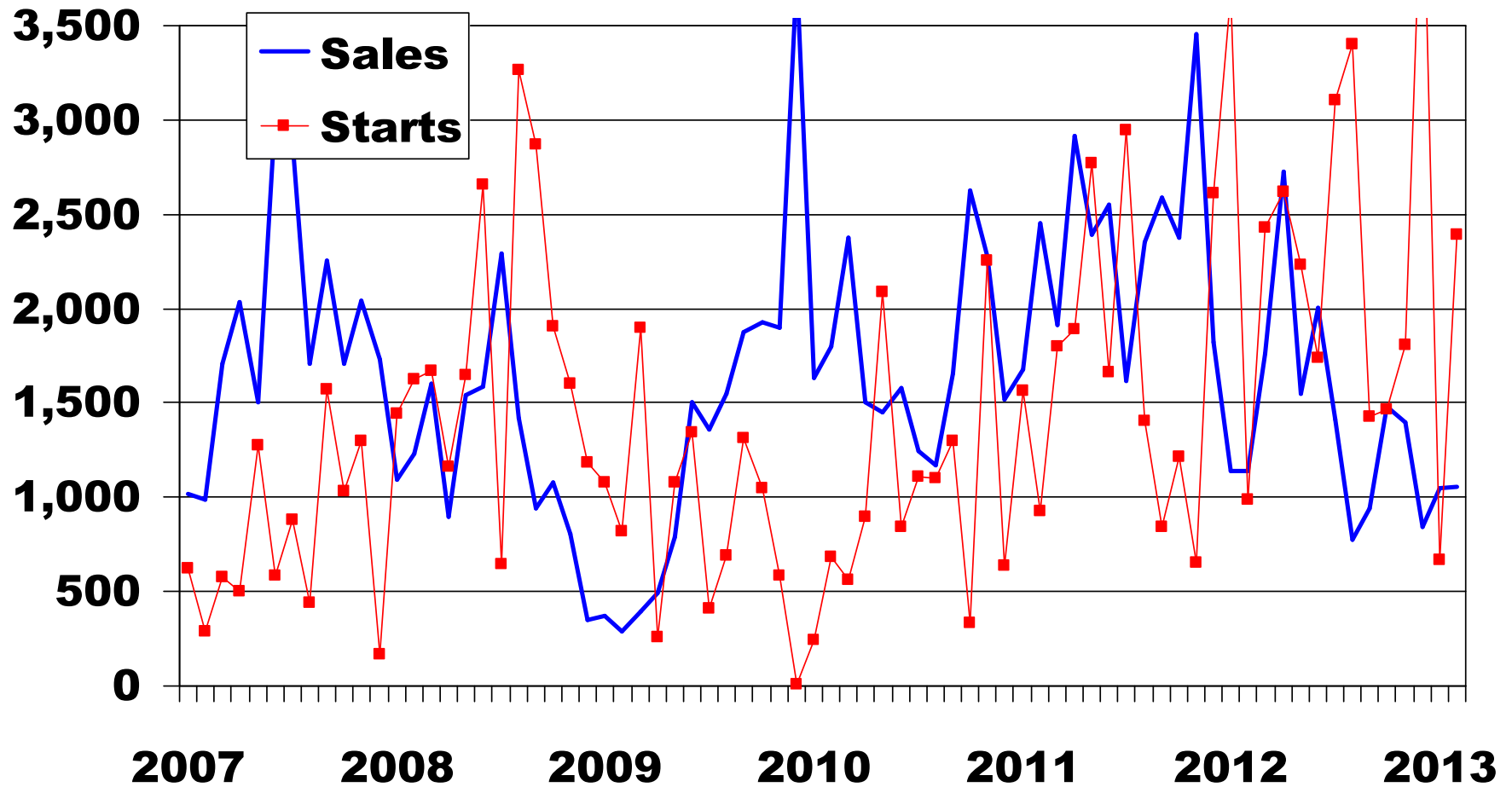
Source: BILD / CMHC / Will Dunning

Trends for Low-Rise Sales versus Starts



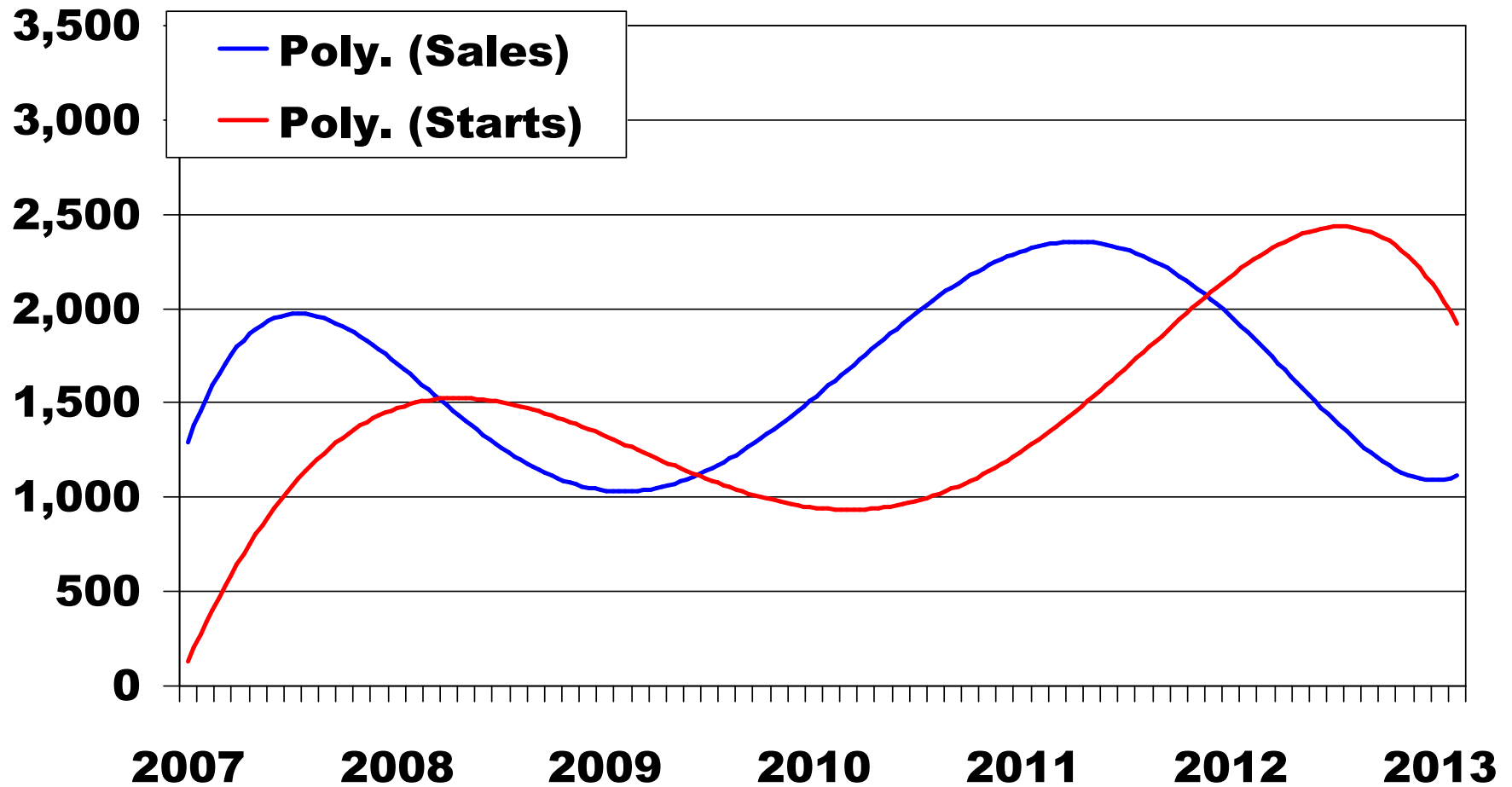
Source: BILD / CMHC / Will Dunning

High-Rise Housing Starts versus Sales



Source: BILD / CMHC / Will Dunning

Trends for High-Rise Sales versus Starts



Source: BILD / CMHC / Will Dunning

Differing Expectations

Toronto CMA Housing Starts

	CMHC	WD
2011	39,745	
2012	48,105	
2013	35,550	29,200
2014	35,700	25,800
2015	n/a	22,400

Expectations for Canada

	CMHC	WD
2011	193,950	
2012	214,827	
2013	190,300	< 170,000
2014	194,100	< 165,000
2015	n/a	< 155,000

Final Thoughts

- The “policy-induced housing market downturn” will have bigger impacts than expected, on the housing market, and the economy.
 - Reduced housing starts will cost jobs (1.75 jobs per unit).
 - Reduced resale activity (8-10%) will cost jobs.
 - Impact of slower growth of house prices (and risk of falling prices).
 - Farther down the road, the reduction in housing supply will mean lower vacancy rates for apartments, and higher rents.
- A wise general knows when to declare victory and retreat.

About Will Dunning

Consulting services by Will Dunning include:

- Custom research on economics and housing markets.
- Briefings and presentations.
- Expert witness testimony.

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- See “Housing Market Digest”