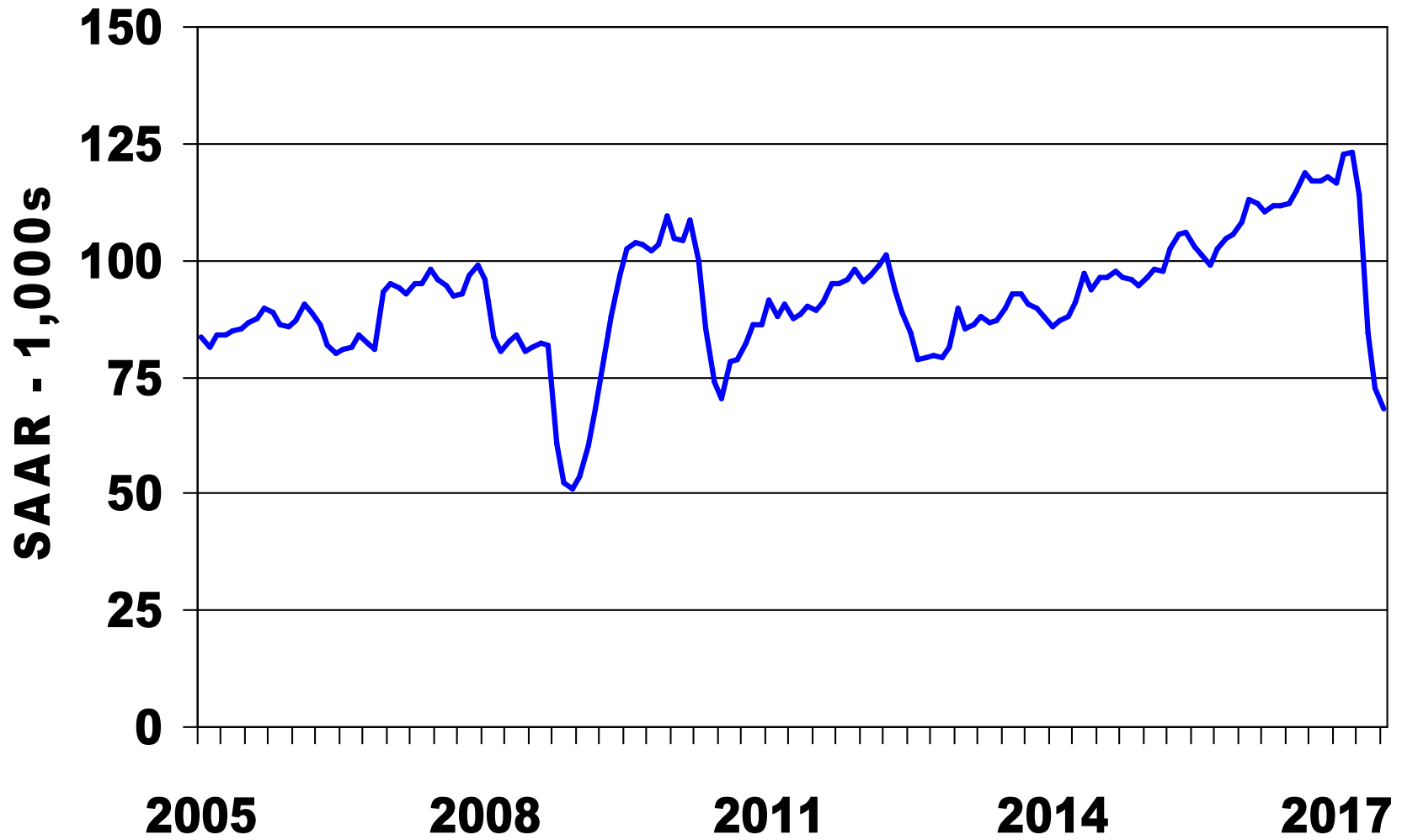


# Housing Market Overview

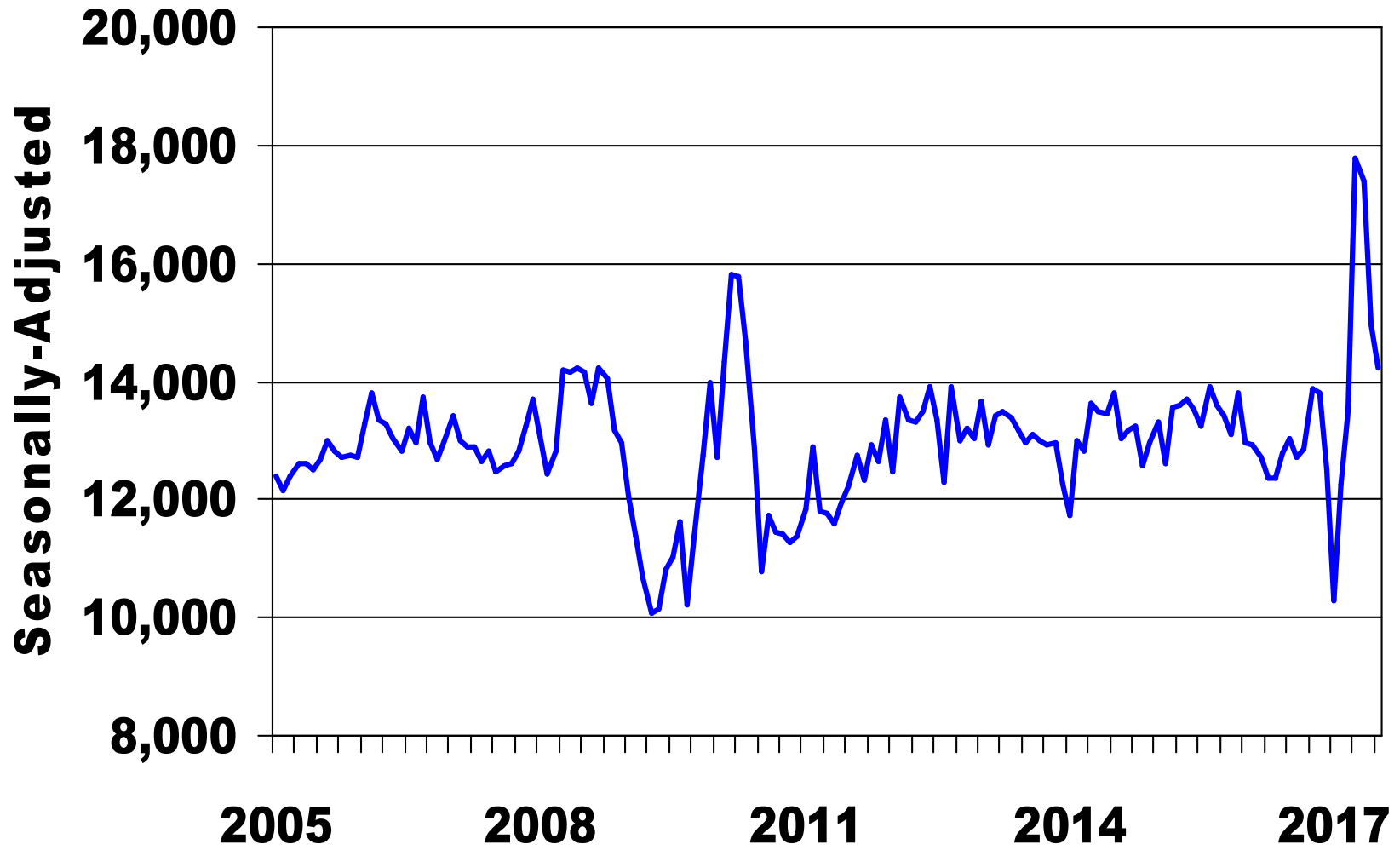
Will Dunning  
August 23, 2017

# Sudden Turn for Resale Activity in the GTA



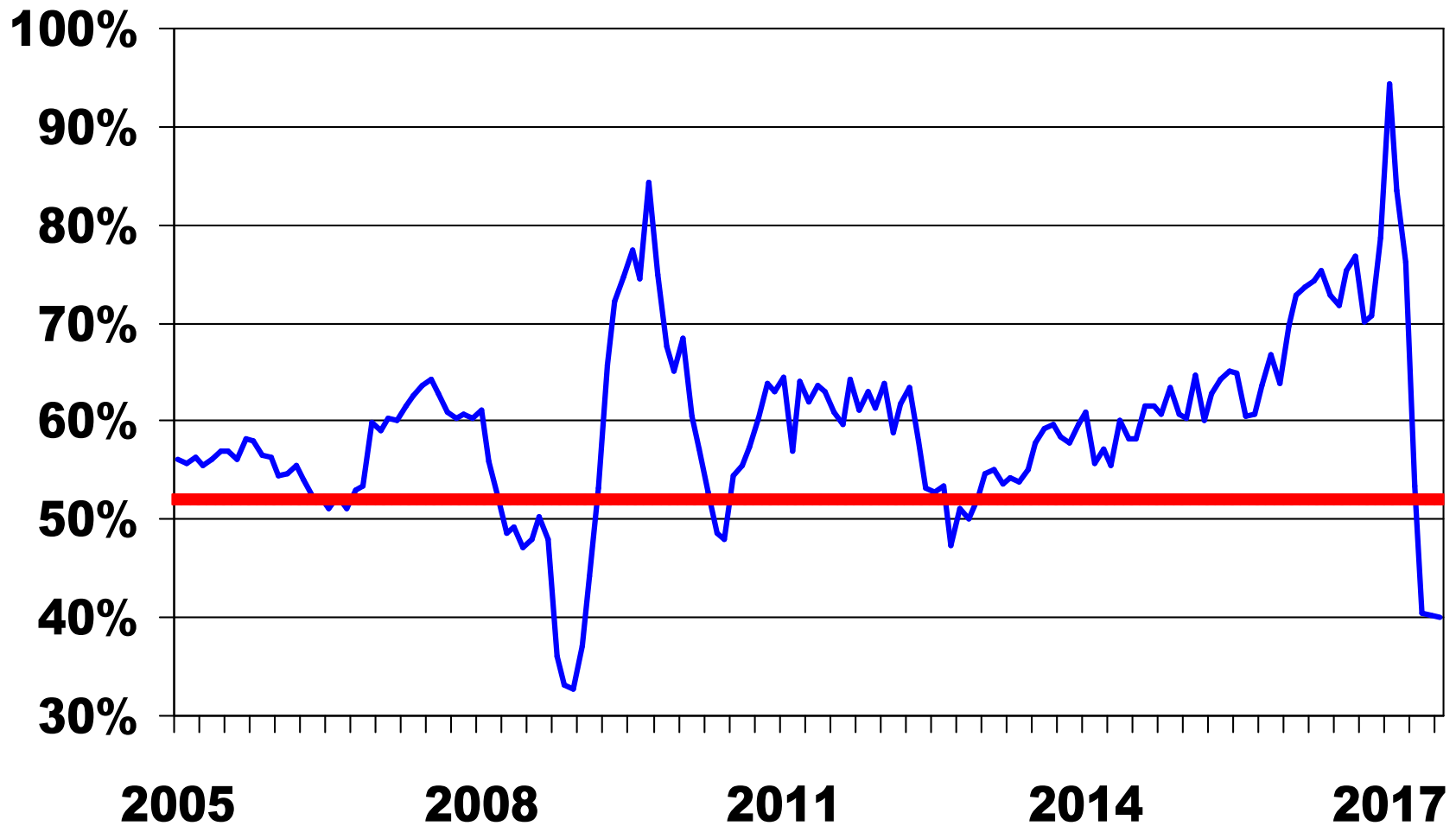
Source: CREA / Will Dunning

# Influx of New Listings



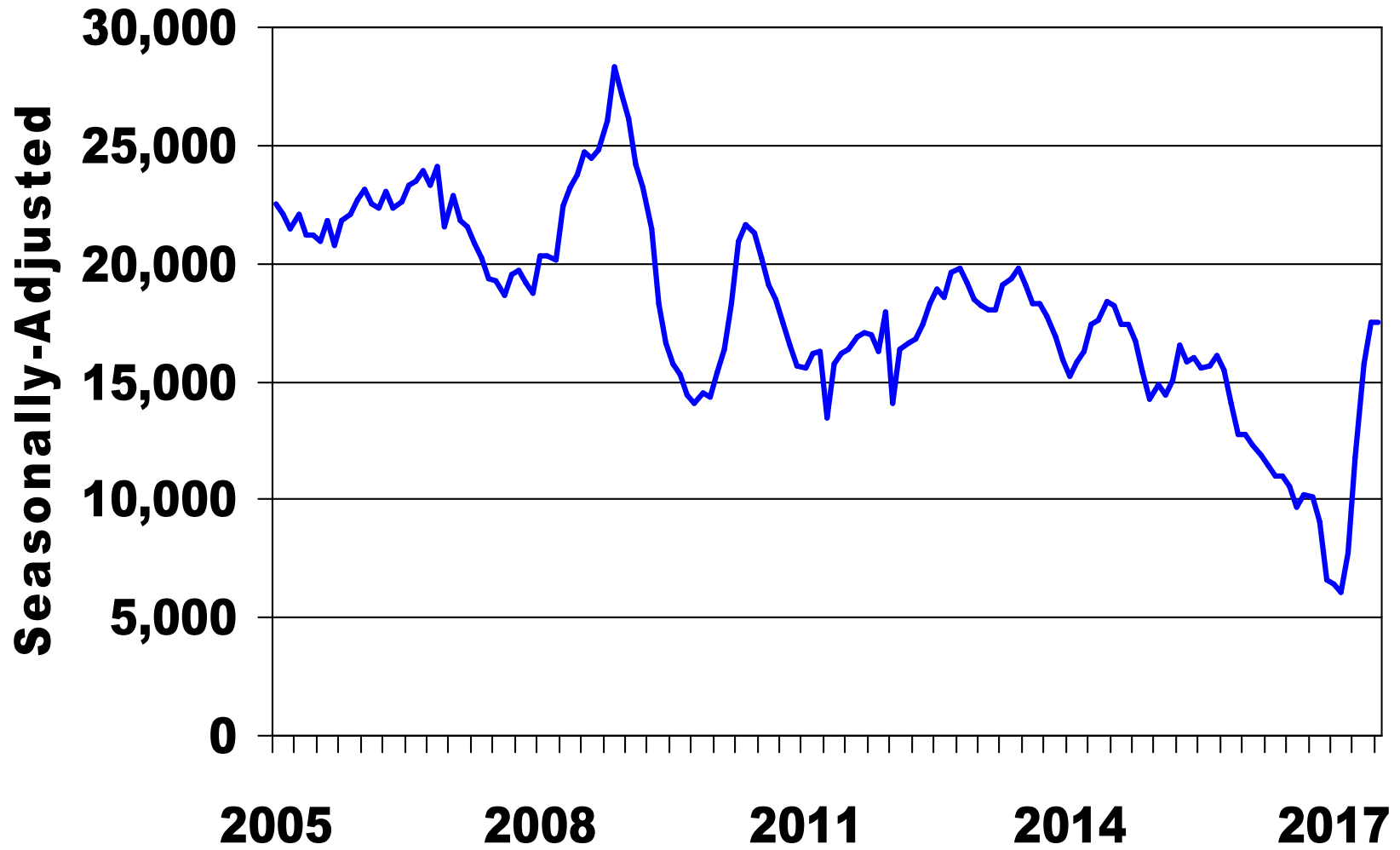
Source: CREA / Will Dunning

# SLR Shows “Sellers’ Market” in the GTA



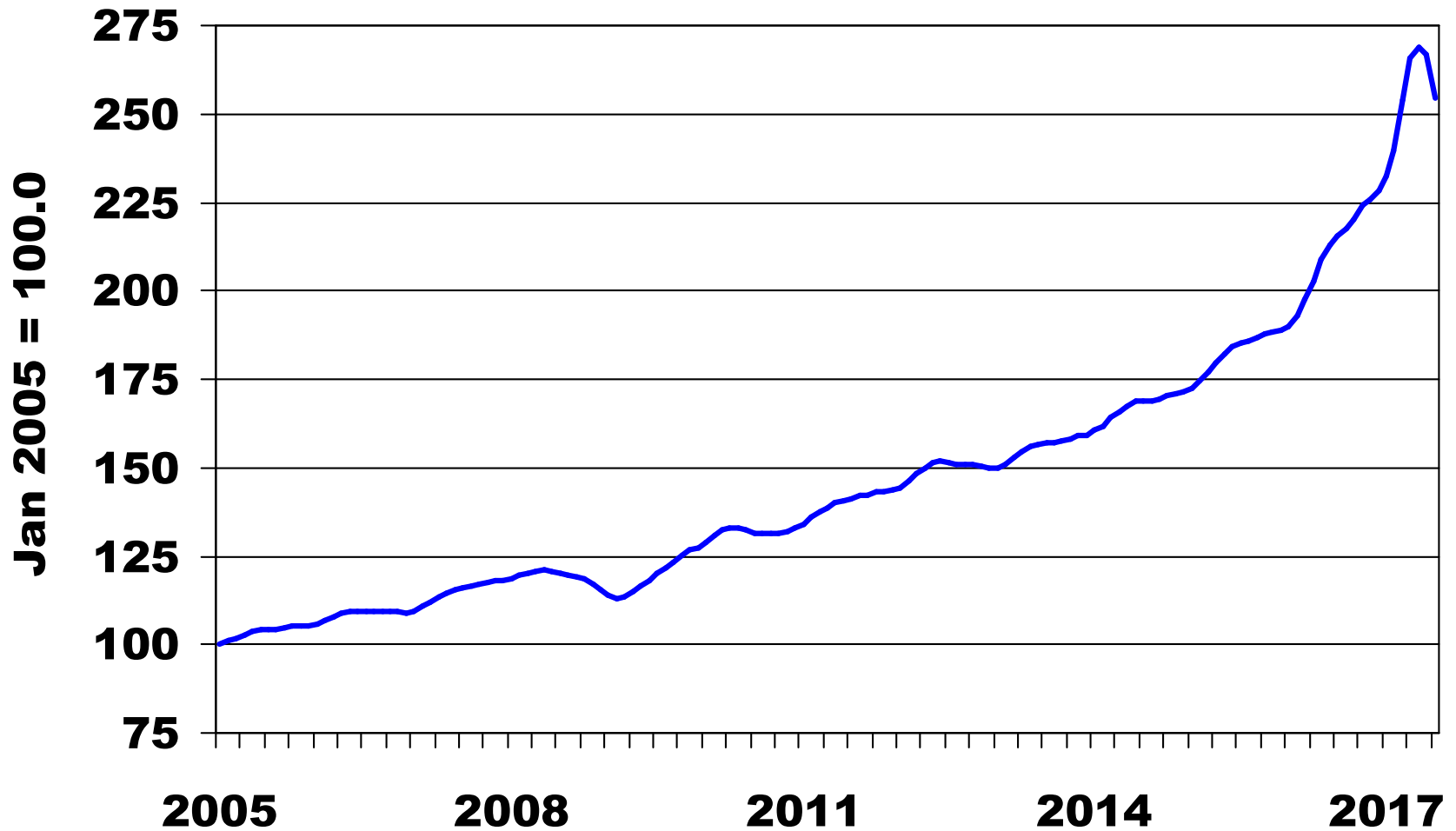
Source: CREA / Will Dunning

# Activity Listings Still Insufficient



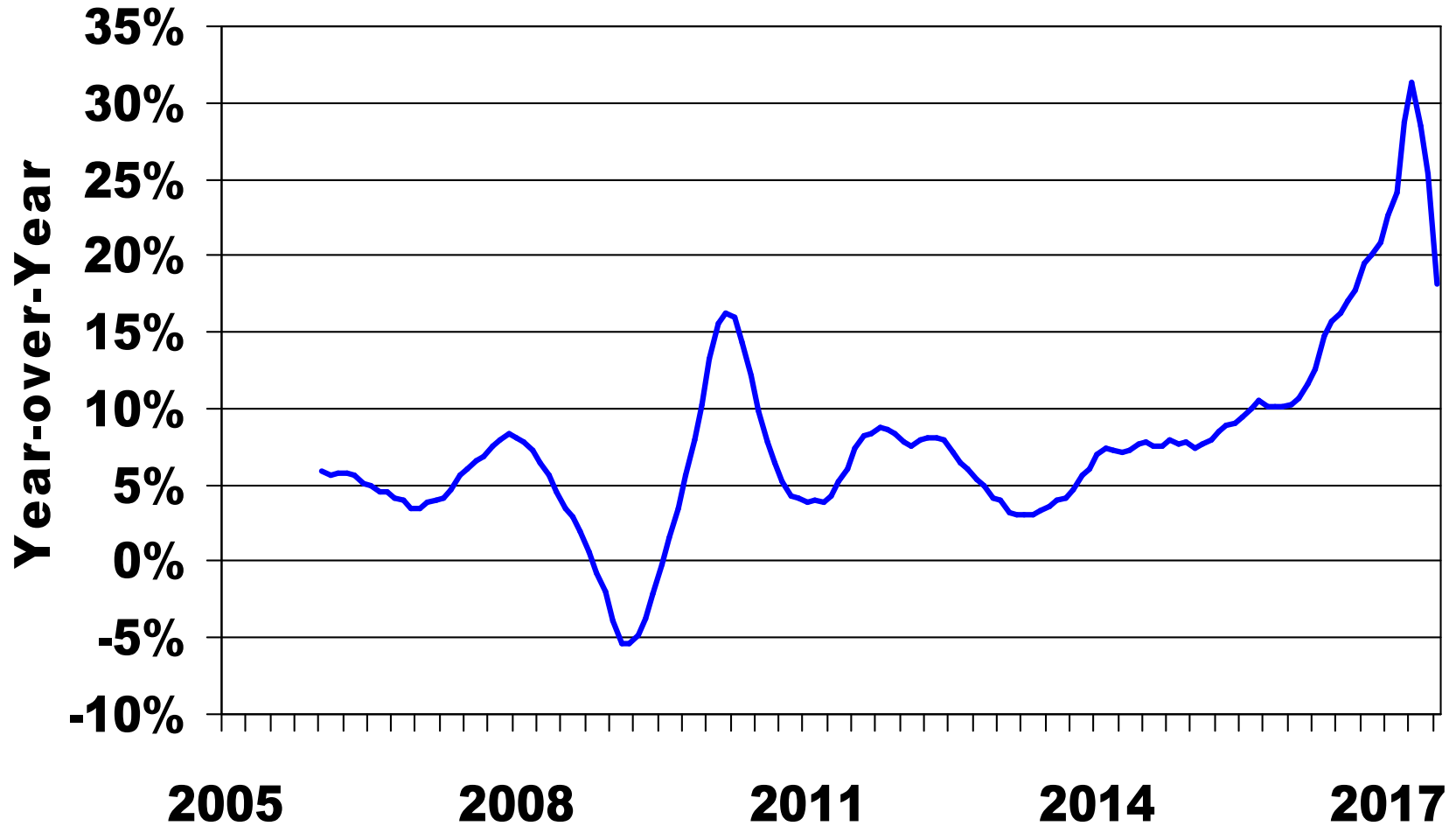
Source: TREB / Will Dunning

# CREA HPI Showed Acceleration



Source: CREA

# Price Surge Interrupted



Source: CREA / Will Dunning

# The “B-word” Has Been Used Liberally

- Canada’s housing markets might be the “most overvalued in the world” – OECD, The Economist...
- Conclusions based on incomplete concepts and flawed data
- Low interest rates have generated “affordability space”
- That said, Toronto had becoming too frothy (starting late last year)

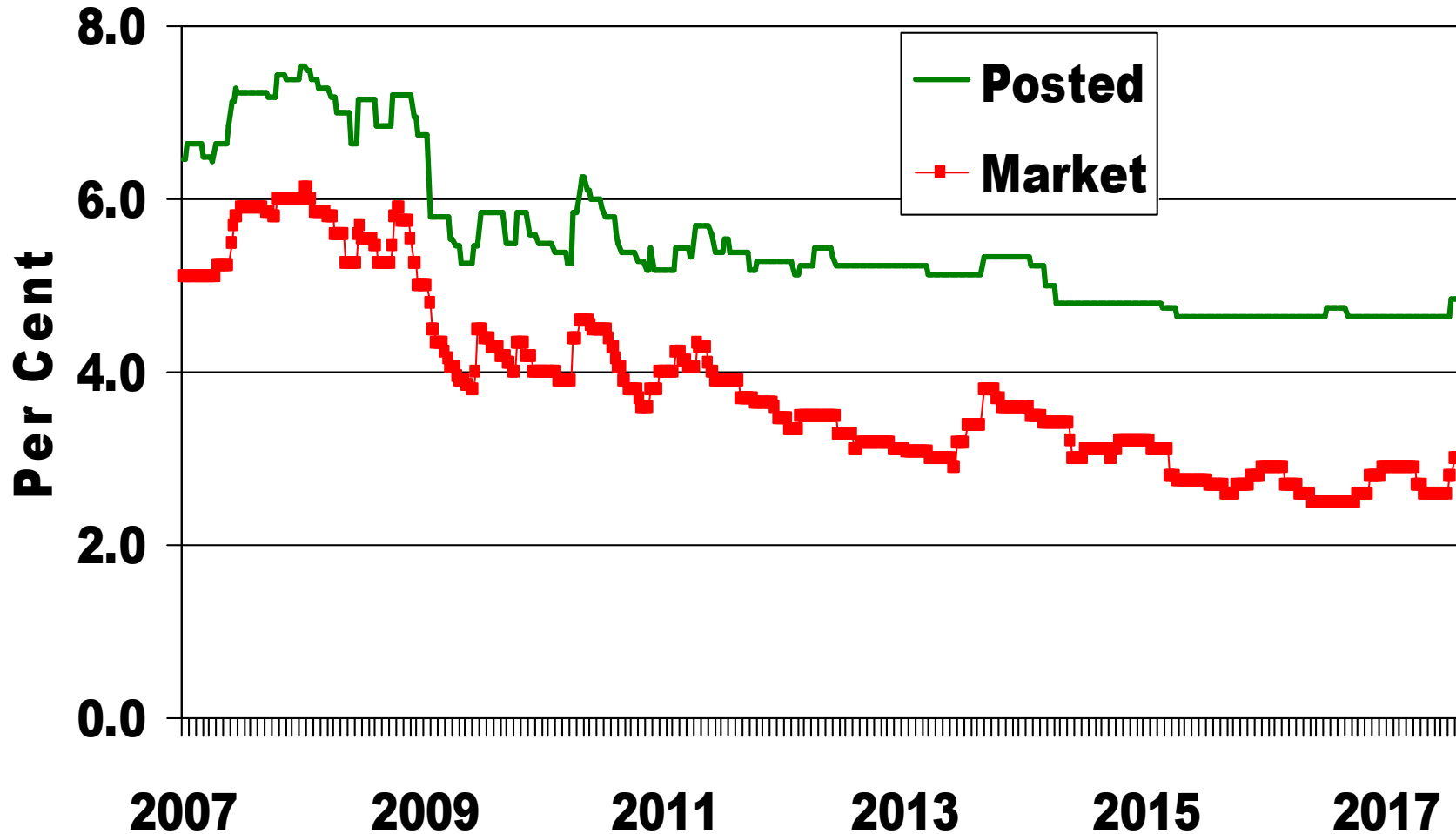


# What is a Bubble?

Joseph Stiglitz:

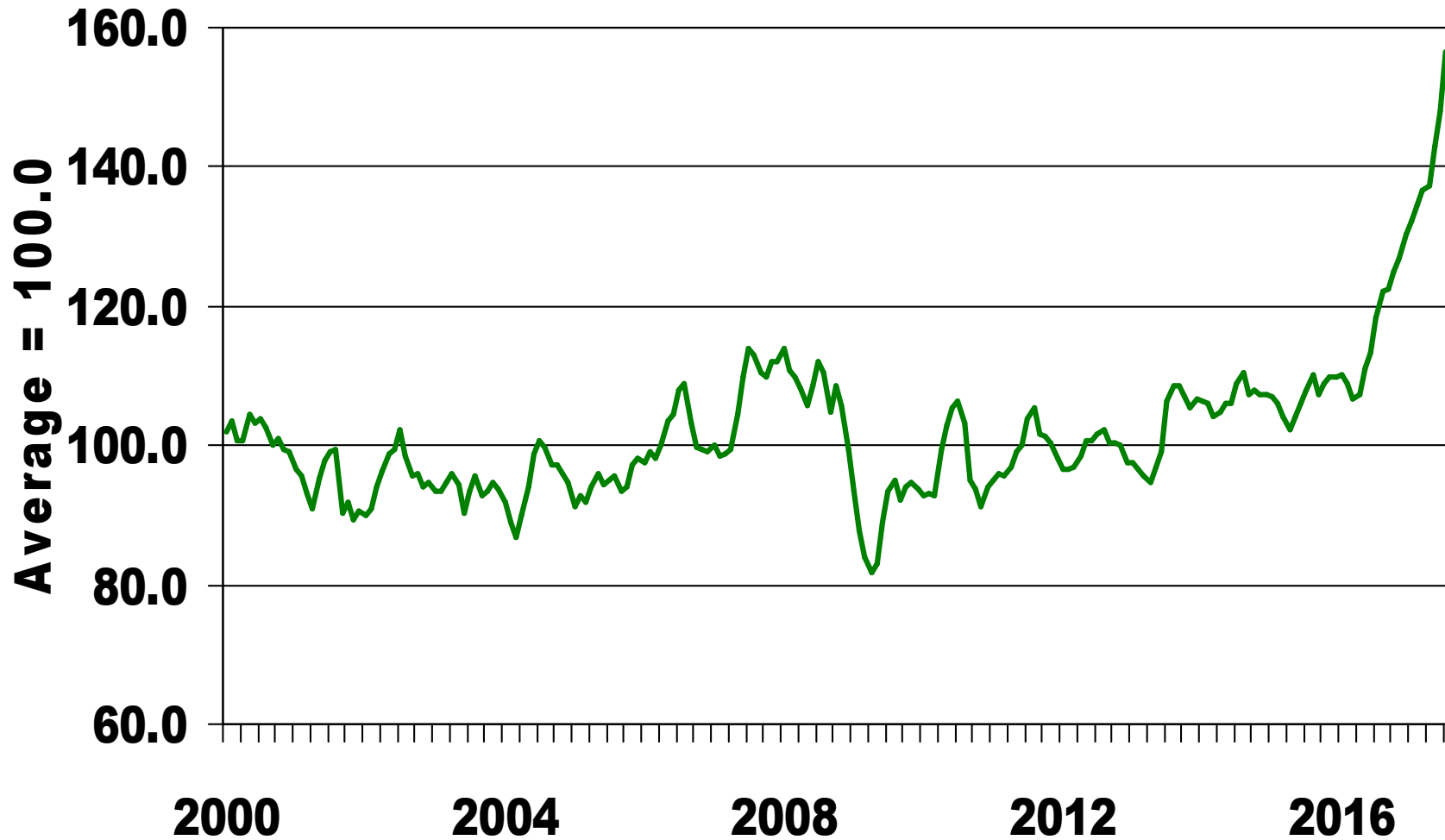
- *If the reason that the price is high today is only because investors believe that the selling price will be high tomorrow - when "fundamental" factors do not seem to justify such a price - then a bubble exists.*

# Two View of Mortgage Rates (5-Year Fixed)



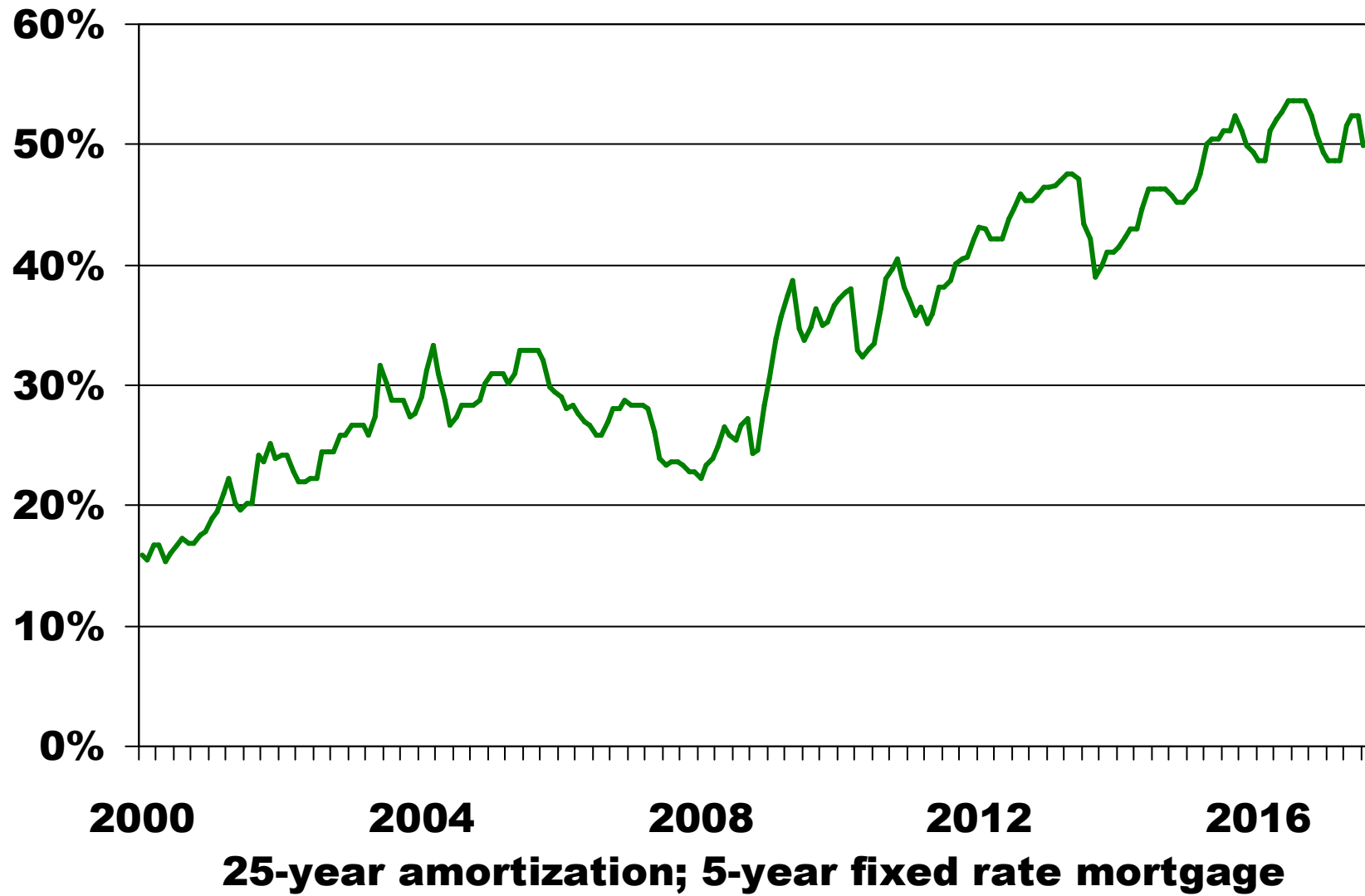
Source: Bank of Canada / Will Dunning

# GTA - Mortgage Costs vs Wages

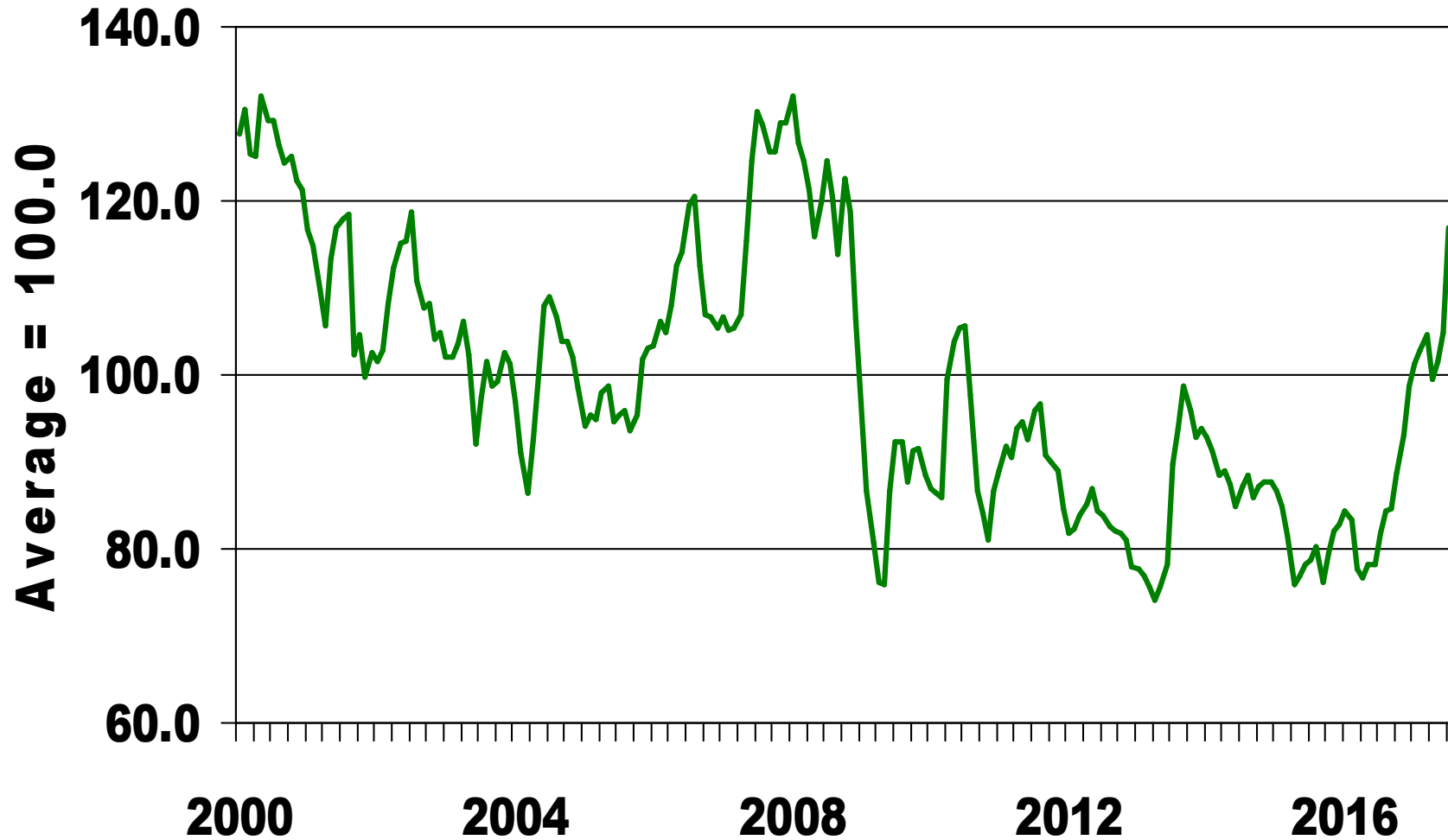


Source: calculations by Will Dunning

# Principal Repaid as % of First Payment



# Toronto Net Mortgage Cost Index



Source: calculations by Will Dunning

# GTA Price Pressures Have Pushed Outwards

<b>CREA Area</b>	<b>Past 5 years</b>	<b>Prior 5 years</b>
Toronto	11.0%	6.2%
Barrie	12.2%	3.3%
Brantford	10.5%	3.1%
Cambridge	9.4%	4.9%
Collingwood	10.9%	2.8%
Grey Bruce	5.5%	2.5%
Guelph	10.9%	4.5%
Hamilton	10.8%	5.7%
Huron Perth	6.0%	2.7%
Kingston	4.1%	4.0%
Kitchener-Waterloo	9.3%	4.6%
London	6.9%	3.7%
Muskoka	3.8%	2.1%
Niagara	11.7%	2.8%
Durham Region	14.2%	5.4%
Ottawa	2.6%	5.3%
Peterborough	9.4%	3.6%
Quinte	6.9%	1.8%
Sudbury	2.2%	5.8%
Thunder Bay	5.3%	9.0%
Windsor	9.0%	1.4%

# The “Stress Test”

- Mortgage insurance – 5 year posted
- OSFI proposal – Contract + 2 points
- Which interest rate to use?
  - Testing today for impact in the future.
  - Neglects principal repayment and income growth
  - 2 point rise 5 years in the future can be simulated today with a 0.75 point premium.
- Use of excessive interest rate could unduly reduce housing activity by 10-15% and cost up to 150,000 jobs.

# Uncertain Outlook

Fundamentals remain strongly positive:

- Job growth and interest rates support demand
- Inadequate supply a long-term issue with no short-term solutions

But, expectations can be self-fulfilling and self-reinforcing.

Current slowdown started with a reaction to severe over-heating that started late last year (a healthy reaction, but with risks).

Ontario plan has added to consumer uncertainty.

Market should regain strength, but not guaranteed.

Stress test (CMHC + OSFI proposal) using excessive interest rates is an unnecessary risk factor.



# About Will Dunning

Analysis of housing markets since 1982

Services include:

- Custom research on economics and housing markets.
- Briefings and presentations.

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