Housing Market Digest

Greater Toronto Area, March 2018

Synopsis: sales in the resale and new homes markets remain far below where they should be. I don't expect to see much improvement in these trends. There will be gradually-emerging macroeconomic consequences.

Resale Market

The sales rate fell further in February (annualized rate of 72,600). Based on the population, a normal sales rate for the GTA would be around 100,000. The scuttlebutt suggests that sales for March will be somewhere around 35-40% lower than last year. This implies a further drop in the sales rate, to about 70,000.

There are two bodies of opinion that say "no worries". (1) Those who say that there were more sales in February than January, and in March than in February. But, that is a normal seasonal event. Once the data are seasonally-adjusted, the conclusion is reversed: activity is weakening. (2) That policy changes have short-lived effects and the market will soon be back to normal. I discussed this argument at length in my Fall 2017 report for Mortgage Professionals Canada:
http://wdunning.com/docs/MPC-2017-Fall.pdf
See especially the discussion of the June 2012 policy change (starts on page 17). Out of 6 policy changes made during 2008 to 2016, the 2012 change was the only one with substantive effects. I expect that the duo of stress tests will be equally consequential.

The sales-to-new-listings ratio ("SNLR") dropped sharply in February (to 45.9%, which is far below the 52% threshold for a balanced market). But, as commented last month there is a big locational mismatch between sales and listings. By region, the SNLRs (seasonally-adjusted) are:

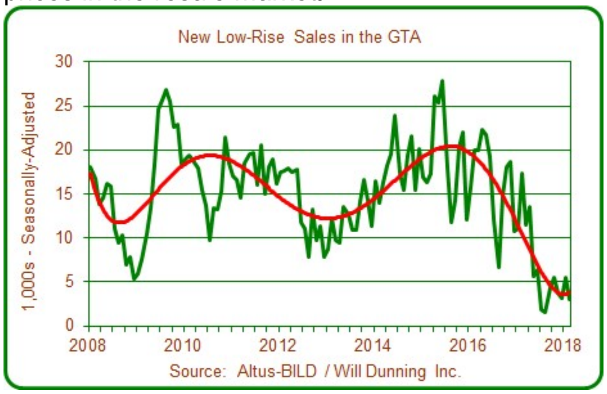
- City of Toronto – 59.1%.
- Peel Region – 51.7%.
- Durham Region – 51.0%
- Halton Region – 47.1%.
- York Region – 34.4%.

The City of Toronto remains considerably under-supplied, Peel and Durham are more-or-less in balance, Halton is slightly over-supplied and York is grossly over-supplied. If there had been more supply in Toronto, the overall sales rate for the GTA could have been slightly higher.

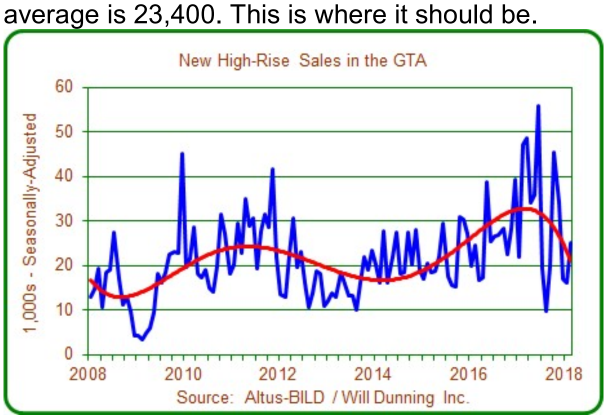
Reported prices rose in February, for both the average price (up by 4.2% versus January) and CREA's House Price Index for the GTA (1.1%). This, again, has been seized-upon as evidence that the market is heating up. But, again, this is a normal seasonal event. After seasonal adjustment, it is possible that prices slipped in February.

New Homes Market

The sales rate for February was just 28,200 (it should exceed 40,000). Low-rise sales have been atrocious for 10 consecutive months, with the seasonally-adjusted rate for February rate at 3,000 and an average of 4,000 for the past 10 months (versus a required minimum of 20,000). Admittedly, demand is being suppressed by a combination of higher interest rates plus federal and provincial policies, as well as slow price adjustments by builders. But, the key issue remains gross under-supply of new low-rise homes. This is setting the stage for even worse market imbalances down the road, which will frustrate consumers and cause unnecessarily high prices in the resale market.

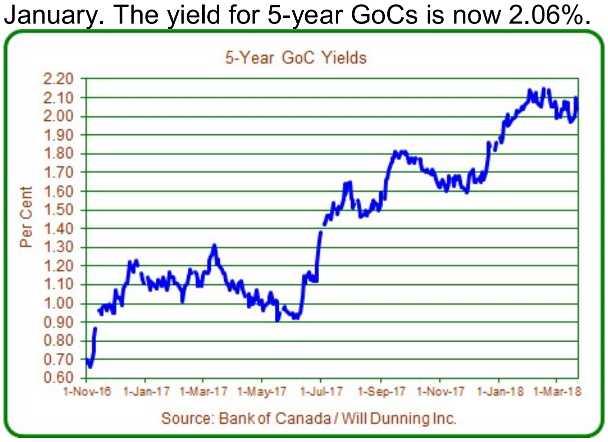


Sales of condominium apartments have also slowed. For February, the seasonally-adjusted rate was 28,300, and for the past eight months the average is 23,400. This is where it should be.



Interest Rates

Bond yields have been relatively flat since mid-January. The yield for 5-year GoCs is now 2.06%.



My opinion-estimate of a "special offer" rate for 5-year fixed mortgages from major lenders is now 3.2%. The increase has been much less than for bond yields, with the result that the spread versus bonds is just 1.2 points versus a long-term average of about 1.8 points. The sudden slowdown of housing activity is clearly resulting in a much more competitive mortgage market.

But, notwithstanding recent events, I still see more pressure for bond yields and mortgage rates to rise, due to reckless fiscal policy in the US.

The Outlook

Forecasts have not been updated.

Toronto Indicators		
	2017	2018
Job Growth	2.2%	3.6%
Resales (units)	92,688	89,400
Sales-to-New-Listings Ratio	51.9%	50.6%
Ch. in Avg. Resale Price	12.0%	-1.2%
GTA New Home Sales		
Low-Rise	7,714	7,900
High-Rise	36,429	20,000
Total	44,143	27,900
Housing Starts		
Low-Rise Ownership	18,525	9,900
Condo Apartment	17,849	27,300
Rentals	2,364	2,500
Total	38,738	39,700
Apartment Vacancy Rate	1.0%	0.7%
Rent Increase	4.4%	3.7%
Source: forecasts by Will Dunning Inc. (Jan. 30/18)		

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