Housing Market Digest

Greater Toronto Area, April 2018

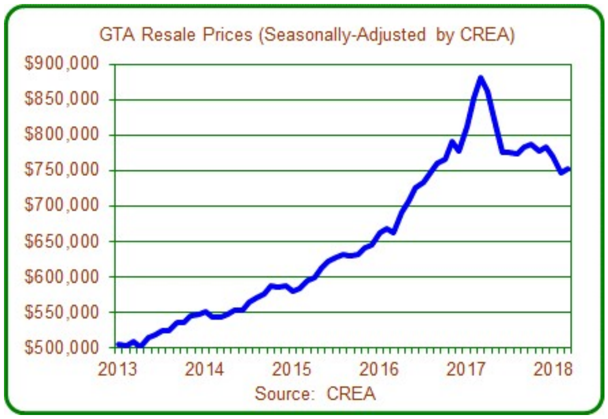
Synopsis: my housing forecasts have been revised downwards substantially, reflecting the combined effects of higher interest rates and the mortgage stress tests. Deliberate suppression of home-buying by governments will hurt tenants by causing lower vacancy rates.

Resale Market

The sales rate was essentially unchanged in March, at an annualized rate of 74,400. (This year, Good Friday was in March, which complicated the seasonal adjustment process and creates some uncertainty.) As commented before, based on the population, a normal sales rate for the GTA would be around 100,000.

The sales-to-new-listings ratio ("SNLR") has dropped sharply, and was just 45.4% in March, which is far below the 52% threshold for a balanced market). As shown in the forecast table (next page), the SNLR is likely to be just under the threshold this year, which should result in flat prices overall. However, suburban markets are very weak, with risks of price reductions. Conditions remain very tight within the City of Toronto, producing price growth.

The average price rose by substantial amounts in both February and March (to $784,558). But, this is a normal seasonal event. After seasonal adjustment, the average price slipped in February and was unchanged in March.

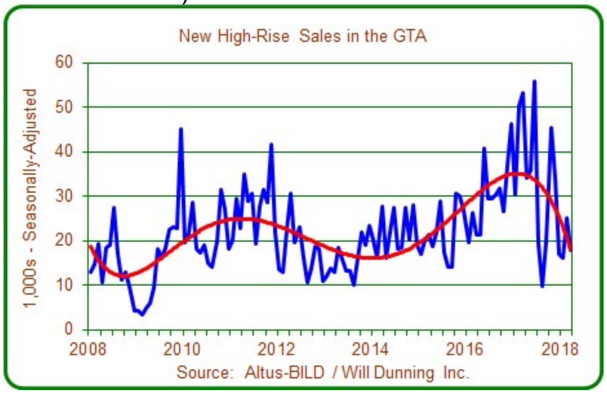


New Homes Market

The sales rate for March was a lowly 20,800 (it should exceed 40,000). The rate for low-rise sales was just 3,000 in March, and the average for the past nine months is just 3,500. My forecast assumes there will be gradual improvement during the rest of the year. But, that can happen only if builders offer more, lower-priced product (to be competitive with resales).

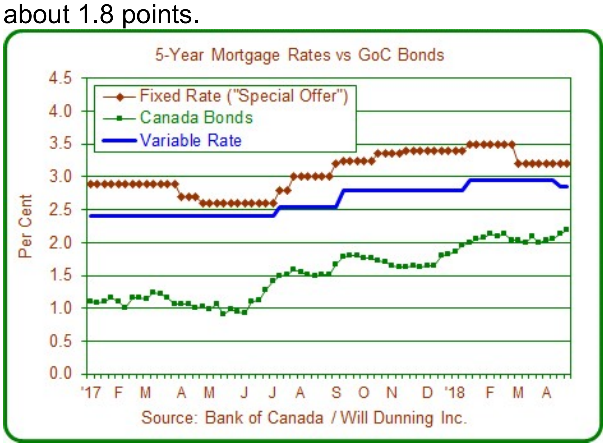
As I have commented frequently, the crash of low-rise sales is going to mean that insufficient additions will be made to the standing inventory of low-rise housing, worsening the supply crisis farther down the road. For the moment, the supply crisis is being masked, by the demand suppression that results from the stress tests.

Sales of condominium apartments have also been reduced, with the average rate over the past nine months at 22,800. For March, the rate was 17,800. The recent sales rates for apartments are reasonable and likely sustainable (however, the very large volume of sales seen during 2016 and the first half of 2017 is likely to cause some disruption when it is ready for occupancy during 2019 and 2020).



Interest Rates

Bond yields had been relatively flat since mid-January, at just over 2%. They have crept upwards during the past few days (and are just under 2.2% as of April 25). Meanwhile, increases for mortgage rates have been much smaller, as the compression of home buying is resulting in greater competition among lenders. My opinion-estimate of a "special offer" rate for 5-year fixed mortgages from major lenders is 3.2%. In consequence, the spread versus bonds is approaching 1 point versus a long-term average of about 1.8 points.



As I commented last month, I see more pressure for bond yields and mortgage rates to rise, due to reckless fiscal policy in the US. Bond yields have increased more in the US than in the Canada, with the result that Canada 5-year yields are below US yields, by increasing amounts (currently by 0.65 points). There is a bit more room for this negative spread to widen, which will have the effect of further weakening the Canadian dollar.

In my revised forecasts, I am assuming that by September the 5-year GoC will rise to 2.4% and 5-year fixed rate mortgages to 3.5%.

The Outlook

Forecasts have been updated. I expect that the combination of higher interest rates and the duo of stress tests will continue to weigh very heavily on home-buying. This will gradually impair job creation.

Toronto Indicators		
	2017	2018
Job Growth	2.3%	2.0%
Resales (units)	93,158	78,400
Sales-to-New-Listings Ratio	52.0%	50.6%
Ch. in Avg. Resale Price	11.9%	-1.1%
GTA New Home Sales		
Low-Rise	7,714	5,200
High-Rise	36,429	22,800
Total	44,143	28,000
Housing Starts		
Low-Rise Ownership	18,525	9,800
Condo Apartment	17,849	28,400
Rentals	2,364	3,400
Total	38,738	41,600
Apartment Vacancy Rate	1.0%	0.8%
Rent Increase	4.4%	4.8%
Source: forecasts by Will Dunning Inc. (Apr 25/18)		

How to Reach Will Dunning Inc.

Telephone: 416-236-5115
Email: wdunning@sympatico.ca
Web site: www.wdunning.com

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