Housing Market Digest

Greater Toronto Area, June 2018

Synopsis: Home-buying in the GTA remains shockingly weak, mainly due to the draconian mortgage stress tests, but also partly due to increased interest rates for fixed rate mortgages (variable rates remain very attractive). In the new low-rise sector, insufficient supply remains a big issue, which will generate long-term instability that is even worse than we have already.

Resale Market

Resale activity has more-or-less flattened, at a level that is far below priors and any sense of what would be normal and/or healthy. The sales rate for May was just 69,100 (but should be around 100,000).

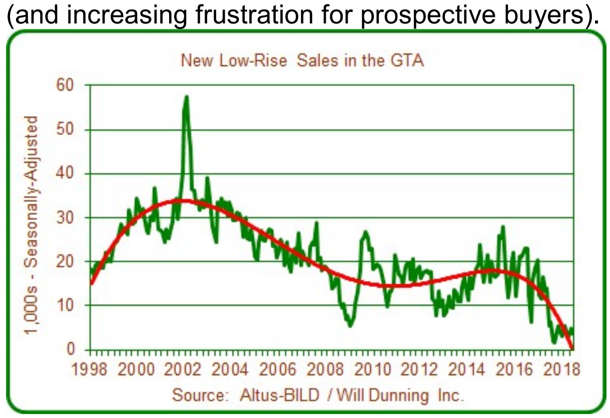
Expressed on a per adult basis, recent activity is one-third below the long-term average.

The sales-to-new-listings ratio ("SNLR") has averaged 47% so far this year, which is below the "balanced market" threshold (which I estimate is about 52%). However, prices have not fallen, in general: the House Price Indexes produced by the Canadian Real Estate Association ("CREA") indicate that prices for low-rise homes have been roughly flat since last summer (and apartment prices have increased substantially). Prices have not fallen because they tend to be "sticky-downwards": prices don't fall unless sellers become desperate. There are also important geographic differences: the City of Toronto remains under-supplied (the year-to-date SNLR has averaged 56%), whereas there are varying degrees of over-supply in the other regions (SNLRs of 46% in Halton, 51% in Peel, 46% in Durham, but just 31% in York).

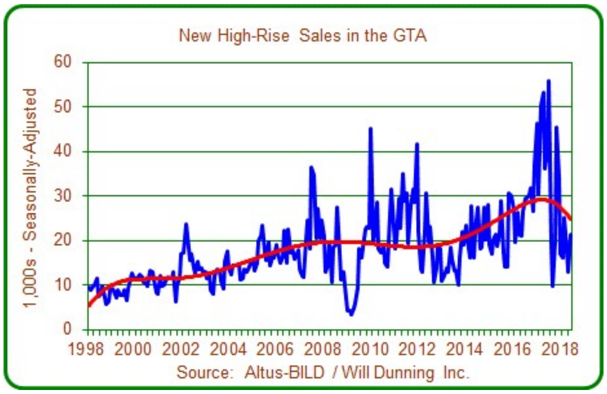
New Homes Market

New home sales remain exceptionally weak. The annualized sales rate for May was 25,000 (including 3,500 for low-rises and 21,400 for apartments). Year to date, the sales rate has averaged 22,700 (4,000 for low-rises and 18,700 for apartments). The sales rate should exceed 40,000, with minimums of 20,000 each for low-rises and apartments.

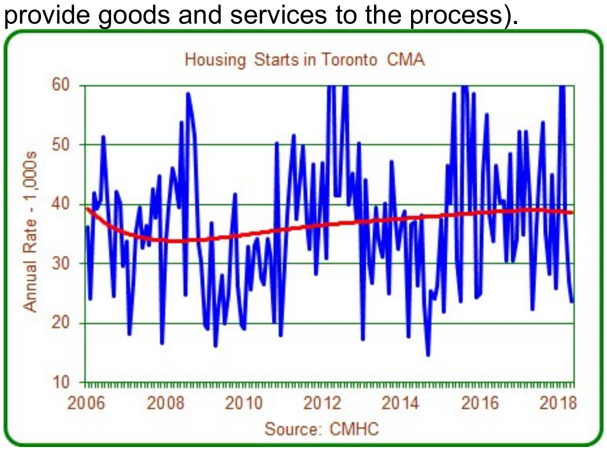
Low-rise activity has been below the minimum requirement of 20,000 for a decade, and the costs are already obvious in the form of price volatility (and increasing frustration for prospective buyers).



Apartment sales were significantly in excess of requirements during 2016 and 2017, which may cause downward instability in 2020 when that excess supply becomes available for occupancy. During the past half-year, apartment sales have been at the right level.



The collapse of new home sales has not yet been reflected in housing starts (as there is a lag between the sale and the start of construction). But, we can expect starts to trend downwards during the second half of this year and into 2019. This will result in a gradual erosion of employment in construction (and in the other industries that provide goods and services to the process).



Interest Rates

Shifting expectations about the economic outlook have caused bond yields to rise then retreat during the past three months. The yield for 5-year GoCs, is just under 2% as of Friday the 22nd). Weaker demand and intensifying competition has constrained mortgage interest rates. My opinion-estimate of a "special offer" rate for 5-year fixed mortgages from major lenders is 3.3%. Variable rates have dropped sharply (although with a partial rebound, to an opinion-estimate of just 2.65%).

On a personal note: with the help of a mortgage broker, I have just arranged a transfer of my mortgage, and got a 5-year variable rate at prime minus 1.16% - just 2.29%! But, the OSFI stress test required the new lender to test me at a rate of 5.34% - more than 3 points above the actual interest rate. These federally-mandated stress test policies are truly stupid (and unnecessarily and ridiculously dangerous to the economy).

The Outlook

Forecasts have not been updated, but it increasingly looks like I need to revise them downwards (even though they are already discouraging). As noted, the policy-induced reduction of home-buying will gradually impair job creation. It will also, ultimately, harm tenants, due to reduced vacancy rates and larger rent increases.

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)		

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