Housing Market Digest

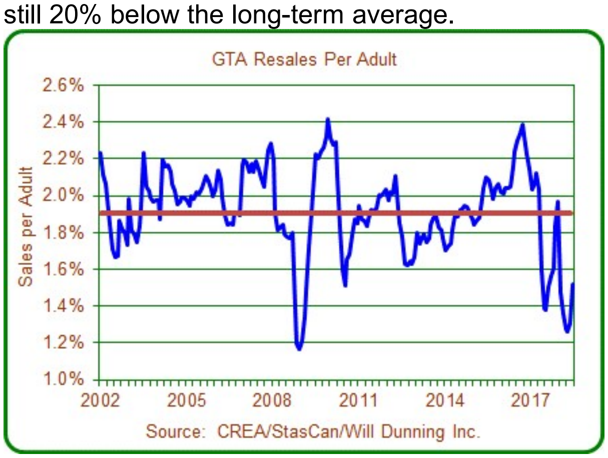
Greater Toronto Area, July 2018

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.

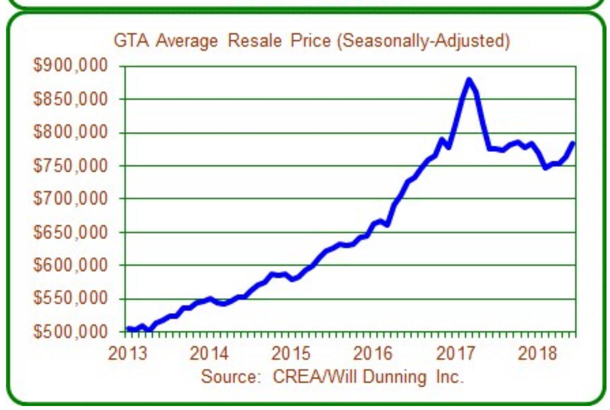
Resale Market

Resale activity jumped in June, to an annualized rate of 82,200. But, it is much too soon to conclude that the impacts of the stress tests are waning. There has been commentary that favourably compares activity this June versus a year ago (up by 2%). There will be more of the same during the next few months. I recommend against seeing this as good news, as I hope is demonstrated in this chart.

Expressed on a per adult basis, June's activity is still 20% below the long-term average.



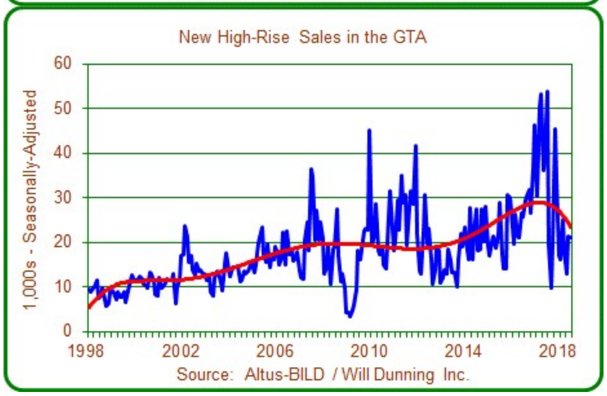
With the rise in sales during June, the sales-to-new-listings ratio ("SNLR") also rose, to 54.5%. But, the ratio has averaged just 48% so far this year (and for the past 12 months). This is below the "balanced market" threshold (which I estimate is about 52%). The average price has varied from month to month, but this is mostly due to (1) normal seasonal variations and (2) changes in composition (the locations and types of properties sold). After taking seasonal adjustment into account, prices for single family homes have been roughly flat for the past year; condo apartment prices had been rising rapidly but appear to have flattened during the past four months.



New Homes Market

Once again, new home sales are far below where they should be, with the sales rate for June at 25,900. This includes low-rises at 4,800 and apartments at 21,100. For the first half of this year, the average rate was 23,200. For the entire period shown in these charts, the average was 38,900. Low-rise activity has averaged 4,100 this year (enormously below the long-term average of 20,900). Apartment activity has averaged 19,100 this year, slightly above the long-term average of 18,000.

As commented before, the current under-production of low-rise housing is setting the stage for a recurrence of housing shortages in the future, which will result in frustration for prospective home buyers. It will affect tenants as well, because fewer people will be able to move out of rentals, causing reduced vacancy rates and high rents.



Interest Rates

Bond yields have been roughly flat this year, and so have interest rates for 5-year fixed rate mortgages (my current opinion-estimate is 3.3%). Intensified competition has caused the mortgage versus bonds spread to compress to just 1.1 points, versus a long-term average of 1.8 points.

A one-quarter point rise in the Bank of Canada benchmark has brought increases for prime rates and variable rate mortgages. But, due to competition, current rates are still lower than they were at the start of the year (my opinion-estimate is now 2.75%). The dip during May and June contributed to the sales increase in June.

Other News

My new report for Mortgage Professionals Canada (released on the 25th) is available here: https://mortgageproscan.ca/docs/default-source/consumer-reports/housing-and-mortgage-market-report_july2018.pdf or in the Recent Reports section of www.wdunning.com.

The report discusses economic risks associated with the mortgage stress tests. During the next three years, job creation in Canada may be 200,000 lower than it should be, due to the direct effects of reduced housing activity, as well as the effects on consumer confidence. Weakened sales across the country are not yet causing substantial price reductions, but that is a major risk.

The Outlook

Forecasts have not been updated. On-going job creation is still a very positive factor for housing demand, but the stress tests are weighing very heavily on potential buyers. The rental market situation is getting worse.

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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