Housing Market Digest

Greater Toronto Area, August 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

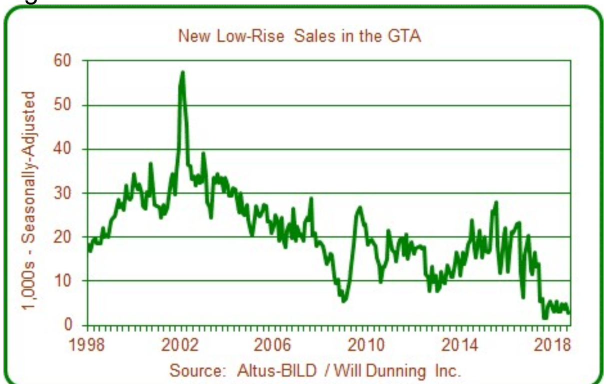
Resale activity rose for the third consecutive month in July, to a seasonally-adjusted rate of 85,800, from a revised figure of 79,600 in June (June was originally reported at 82,200). Based on the growing population, a normal rate would be 103,000, but for the year to date, the average is 75,000. Repeating a chart I have used since 2012, sales per adult have been very weak this year. Even with the recent recovery, the July sales rate is 17% below the long-term average (shown by the brown line). Year-to-date, the sales rate is 27% below normal. The two main economic factors are mixed and roughly offsetting: the employment situation and population growth are still very supportive, but interest rates have increased modestly. On that basis, activity should be close to a normal level. The sharp downturn in sales is due to (1) the federally-mandated mortgage stress tests (2) increased consumer caution in the wake of the excess exuberance that was seen during 2016 into early 2017, and (3) provincial policies that aim to deter buying by non-residents.

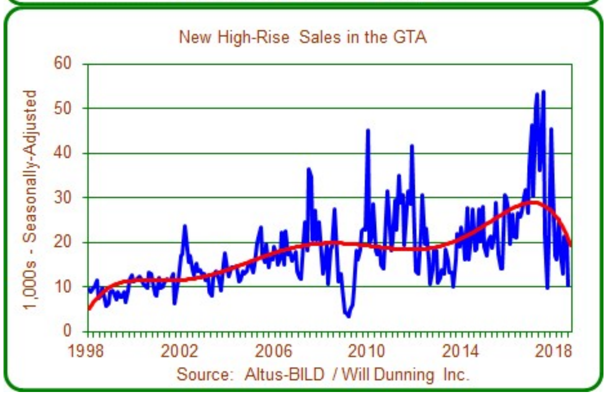
The sales-to-new-listings ratio ("SNLR"), at 54.2% in July, is slightly above the "balanced market" threshold (which I estimate is about 52%). But, for the past 12 months the ratio has averaged just 48%. In consequence of a relatively weak state-of-balance, prices are showing little change: the average price has increased by 4.8% from a year ago, but this is largely due to a change in composition (more high-priced singles and a reduced share for condominium apartments). CREA's House Price Index (which attempts to control for composition) is down slightly (by 0.6%) versus a year ago.

New Homes Market

New home sales have been dreadful. The July sales rate was just 13,100 (should exceed 40,000). The year-to-date average rate is just 21,800. For low-rises, the July rate was 2,900 (the third worst monthly rate of the past 38 years – and the two worst rates were August and July last year). The Year-to-date average is just 3,900. Issues include the stress tests, builders' difficulty in adjusting to the price correction (short-lived bubble and burst), and the challenge of getting projects into the market. For apartments, the sales rate was 10,200 for July and 17,800 the year-to-date (which is slightly lower than it should be). Demand for apartments has clearly weakened, as buyers are pulling back in the face of the stress tests, foreign buyers' tax, and excessive sales and price growth during 2016 and 2017. (The trend line for apartment sales isn't yet keeping up with the sharp downturn that has occurred – it really should be at about 16,000 versus the 20,000 indicated.)

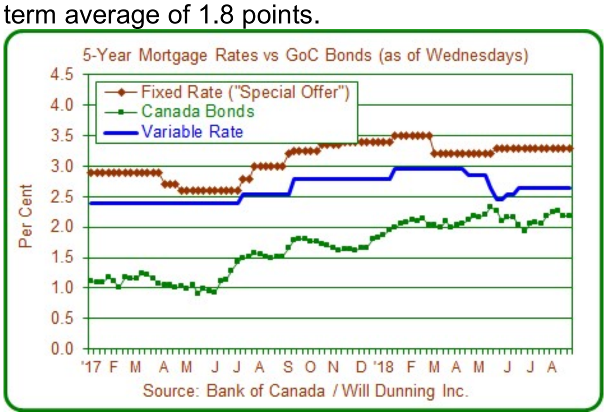
Repeating an evergreen comment: the current under-production of low-rise housing is setting the stage for a recurrence of housing shortages in the future, which will result in frustration for prospective home buyers. It will affect tenants as well, because fewer people will be able to move out of rentals,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





Interest Rates

Bond yields have varied, but have been directionless during the past four months (in the area of 2.2% for 5-year GoC bonds). Meanwhile, reduced home buying means less demand for mortgages and more competition between lenders. My current opinion-estimate is 3.3% for 5-year fixed rate mortgages. The mortgage versus bonds spread is now just 1.1 points, versus a long-term average of 1.8 points.



The typical rate for variable rate mortgages has increased from the low seen during May, but remains very attractive, at 2.75%.

Other News

A reminder that a core part of my business is providing market feasibility studies for potential rental developments.

The employment data from Statistics Canada for the GTA is still volatile and very difficult to use. My guess that is the employment-to-population ratio is roughly flat. Since population growth is accelerating, it is probable that job growth is also faster. This should support more home-buying.

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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