Housing Market Digest

Greater Toronto Area, September 2018

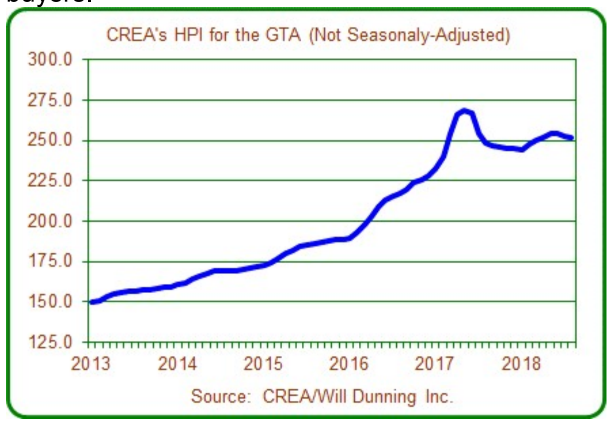
Synopsis: Buying of resale homes is improving in the GTA (and surrounding communities). But it remains much weaker than it should be, mainly due to the mortgage stress tests. New homes activity is extremely weak (especially for low-rise options) and this will generate long-term instability that is even worse than we have already.

Resale Market

Resale activity continues to improve (for the fourth consecutive month). The annualized sales rate for August was 86,800. While the sales figures have improved, they are still far lower than they should be. Based on the growing population, a normal rate would be 103,500 (this number rises by about 200 per month). The sales rate for August is 16% below that. Increased interest rates are a negative factor, but the strong state of the economy should be offsetting. Housing activity is still significantly depressed by the mortgage stress tests.

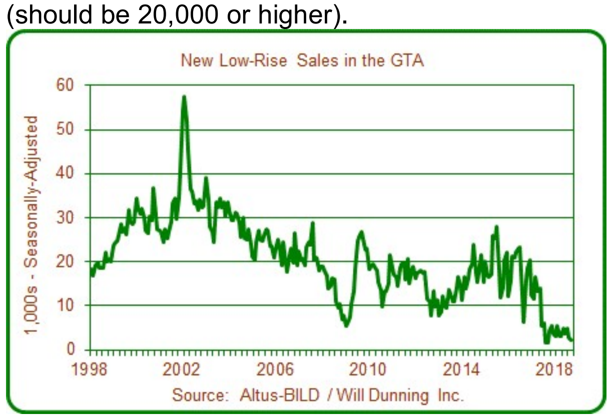
The flow of new listings into the market is still muted, with the result that the sales-to-new-listings ratio ("SNLR"), at 56.4% in August, is rising. Over the past 12 months, the SNLR has averaged 48.5%, which is below the "balanced market" threshold (which I estimate is about 52%).

In consequence of the low average for the SNLR, price movements have been muted during the past year. CREA's House Price Index has increased by just 1.4% versus a year ago. The price index has dropped slightly during the past three months, but this is a normal summertime event. All of this said, there is positive momentum in the sales rate and the SNLR, so that we could see a slight acceleration of price growth late this year and into next. But, I do not foresee a return to the "boom" conditions of 2016/early 2017, because the stress tests will remain a very substantial impediment for too many potential buyers.

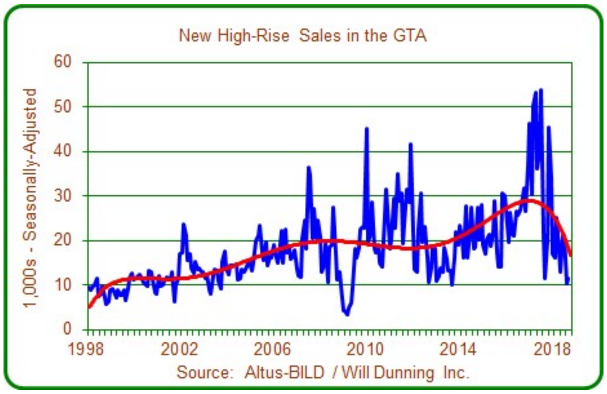


New Homes Market

Once again, new home sales were very weak in August, with the sales rate at just 13,800 (should exceed 40,000). During the past six months, the average has been just 19,400. For low-rises, the August rate was 2,300 and the six-month average is 3,600. There have now been 16 consecutive months with low-rise sales rates far below 10,000 (should be 20,000 or higher).



For apartments, the sales rate was 11,500 for August, and the six-month average is 15,800. (While this chart shows a trend line, the trend isn't able to keep up with the rapid fall in sales.)

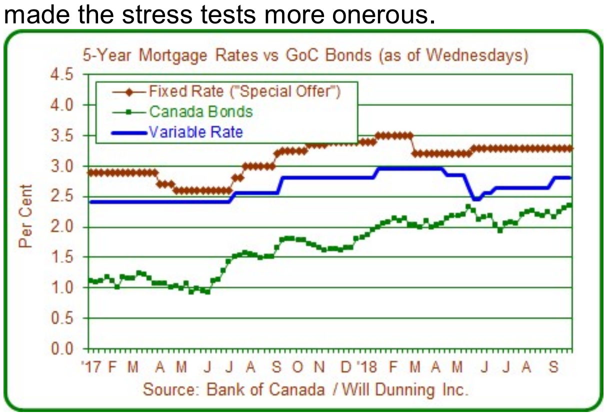


Weakened new home sales numbers are increasingly bringing reduced housing starts. For the first eight months of this year, starts of low-rise homes (singles, semis, and towns) are 43% lower than for the same period last year. For apartments, on the other hand, (1) it takes longer for sales to translate into starts and (2) very strong sales in 2016 and 2017 are still bringing starts. So far, apartment starts are 31% ahead of last year. That will change late this year and into next year.

Interest Rates

My opinion-estimate of a typical "special offer" rate from major lenders remains at 3.3% for 5-year fixed rate mortgages. For 5-year variable rate mortgages, my opinion estimate is 2.8%. In both cases, the current estimates are the same as a year ago, even though bond yields and lenders' prime rates have both increased by a half-point. With the substantial drop in housing activity, the mortgage market has become more competitive.

Even though actual mortgage rates haven't changed compared to a year ago, the "posted rate" has increased by a half-point, which has made the stress tests more onerous.



Other News

Mortgage Professionals Canada has published a new report, which compares the costs of owning and renting for many situations across Canada. Mortgage payments, through repayment of principal, result in large amounts of saving. When comparing the costs of owning and renting, we should keep this in mind. On this basis, the "net cost" of ownership is lower than renting in most situations. The advantage of home ownership increases over time, as the cost of renting will rise more rapidly than the cost of owning. The report can be found on the Recent Reports page at www.wdunning.com, or here: https://mortgageproscan.ca/home/home-news/2018/09/12/owning-vs-renting-a-home-in-canada

The Outlook

Forecasts have not been updated. While these forecasts are now five months old, most of them still look reasonable.

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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