

Housing Market Digest

Greater Toronto Area, November 2018

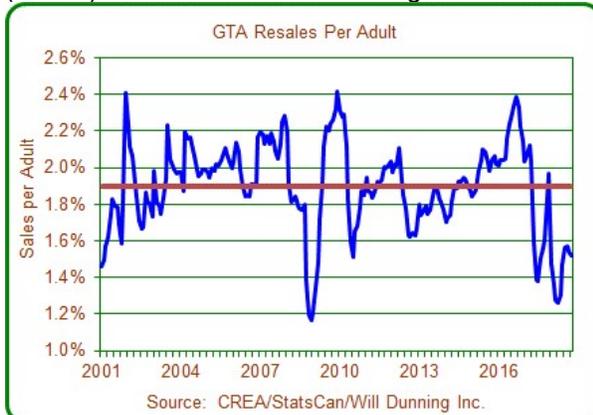
Synopsis: no change. Home-buying (resales and new construction) is much weaker than it should be, mainly due to the mortgage stress tests. A developing drop in new construction of home owner properties will add further pressures in the rental market during the next 3 years.

Resale Market

CREA estimates that October sales were at a seasonally-adjusted annualized rate of 83,100, which is a small setback from prior months. The mortgage stress tests continue to weigh heavily on the housing market. Recent increases in mortgage interest rates are a further impediment.



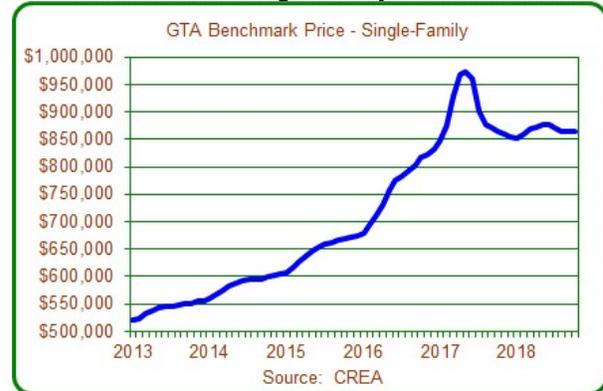
Over time, the population grows, which should mean that there are more potential buyers. As well, the inventory of existing homes (which could potentially be sold) expands via new construction. Therefore, the next chart looks at sales on a per adult basis. This shows that activity is extremely weak in historic terms. The sales rate for October (1.52%) was 20% below the average of 1.90%.



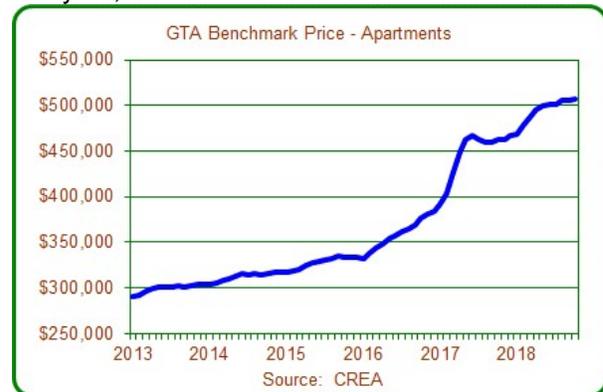
The flow of new listings into the market is still constrained. As discussed previously, potential move-up buyers are discouraged by the combination of the stress tests, rising interest rates, high prices, and high transactions costs (including commissions and Land Transfer Tax).

With supply and demand in balance, CREA's House Price Index for the GTA has increased at a moderate rate, by 2.6% versus a year ago.

The index is flat for single-family homes.



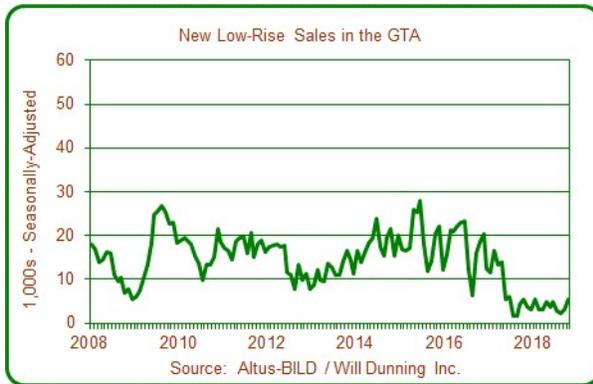
For condominium apartments, CREA's price index is up by 9.6% year-over-year. But, the rate of increase has decelerated sharply during the past half year, and this will continue.



New Homes Market

Sales improved in October, to an annualized rate of 31,600 (based on 3,296 actual sales). This is still substantially lower than is required (in excess of 40,000, based on our growing population).

Low-rise sales increased slightly, to a rate of 5,500. While this is up from the average of 3,800 over the prior 17 months, it is still extremely weak. A recovery of low-rise sales depends on expanding new pre-construction supplies, at pricing that is competitive with resales.

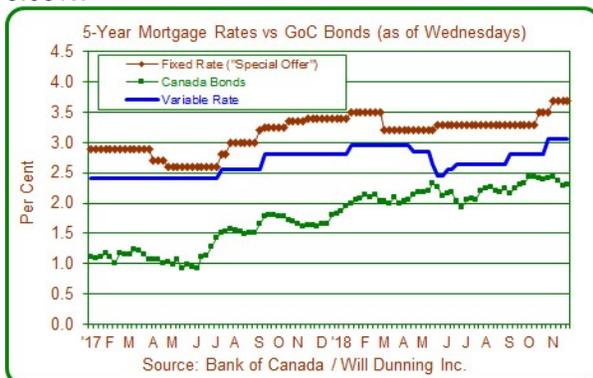


The bulk of the increase in total sales was for apartments, which jumped to 26,100, versus an average rate of 17,100 for the prior nine months. As I commented last month, condo apartment sales will be constrained by a combination of the mortgage stress tests and higher interest rates. As well, the developing slowdown for headline (year-over-year) changes in condo resale prices will gradually discourage investors next year.



Interest Rates

The upward trend for bond yields has paused during the past month, as economic anxiety has worsened. Meanwhile, I have once again raised my opinion-estimate of the typical “special offer” rate from major lenders, to 3.7% for 5-year fixed rate mortgages. For 5-year variable rate mortgages my opinion estimate is unchanged at 3.05%.



Rental Market

On November 28, CMHC released data from its 2018 rental market survey. For the Toronto CMA:

- The vacancy rate rose slightly, to 1.1% from 1.0% a year ago, as a large volume of housing completions (mostly condominium apartments) provided more housing options.
- Rents rose by 5.5%.

Other News

I'm thinking about a report on the feasibility of rental development. This will draw conclusions quite different than the standard line. Two things.

- Thing 1: I don't expect to find a client for this, so I might try to crowd fund it.
- Thing 2: if you have any financial analysis of new rental projects (either purpose-built or rented condo) that you have considered as an investor or lender, would you share it with me?

The Outlook

No changes have been made to my forecasts.

Toronto Indicators		
	2018	2019
Job Growth	2.0%	2.6%
Resales (units)	78,500	73,500
Sales-to-New-Listings Ratio	50.3%	48.6%
Ch. in Avg. Resale Price	-4.8%	-0.5%
GTA New Home Sales		
Low-Rise	3,800	6,500
High-Rise	17,200	9,000
Total	21,000	15,500
Housing Starts		
Low-Rise Ownership	10,400	8,000
Condo Apartment	23,700	16,200
Rentals	3,600	2,500
Total	37,700	26,700
Apartment Vacancy Rate	1.1%	1.0%
Rent Increase	5.5%	4.5%
Source: forecasts by Will Dunning Inc. (Oct 24/18)		

How to Reach Will Dunning Inc.

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

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