

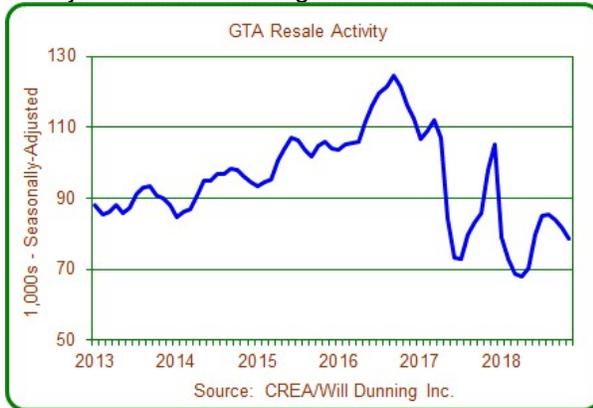
# Housing Market Digest

Greater Toronto Area, December 2018

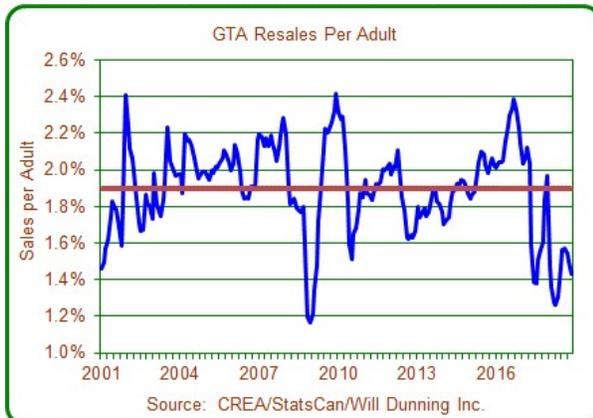
**Synopsis: This has been a stressful year, in too many ways. Let's hope for much better next year. Best wishes.**

## Resale Market

Based on CREA data for November sales were at a seasonally-adjusted annualized rate of 78,500, This is a drop of 8% from the "local peak" that was seen just three months ago.

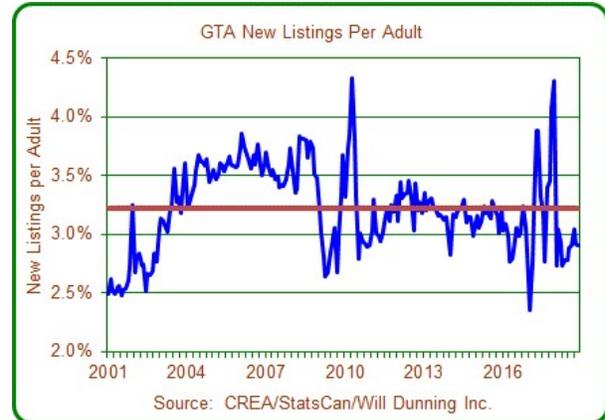


Correspondingly, the sales rate (per adult) has fallen. The rate for November (1.43%) was 24% below the average (for 2001 to the present) of 1.90%.

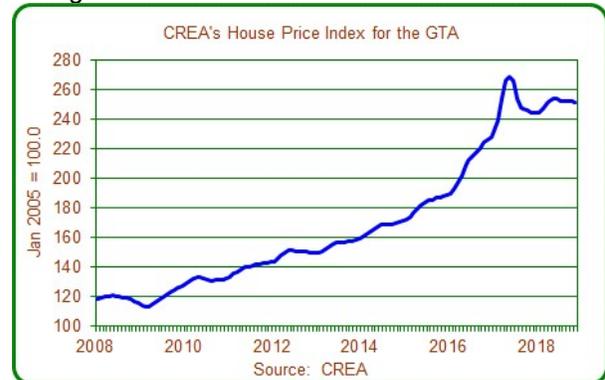


The flow of new listings into the market is also constrained, as potential move-up buyers are discouraged by the combination of the stress tests, rising interest rates, high prices, and high transactions costs (including commissions and Land Transfer Tax).

So, while the sales rate is far below the average level, new listings are somewhat below (by 10%). The sales-to-new-listings ratio is currently at 49% (slightly below the balanced market level, which is about 53%).



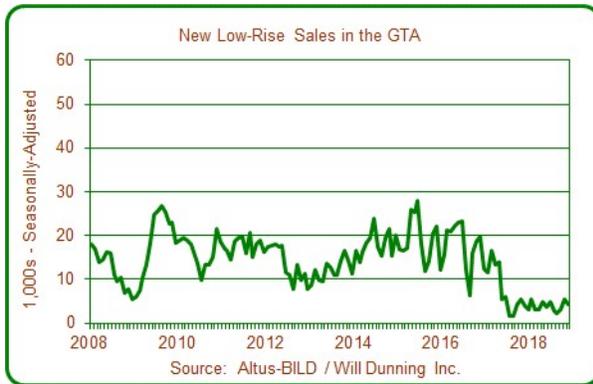
The drop in the sales-to-new-listings ratio has caused prices (as measured by CREA's house price index) to flatten (or even erode slightly) during the past half year. While the price index is still rising on a year-over-year basis (currently by 2.7%), during the next few months, as older data drops out of the calculation, those YoY changes will become negligible and the narratives will change.



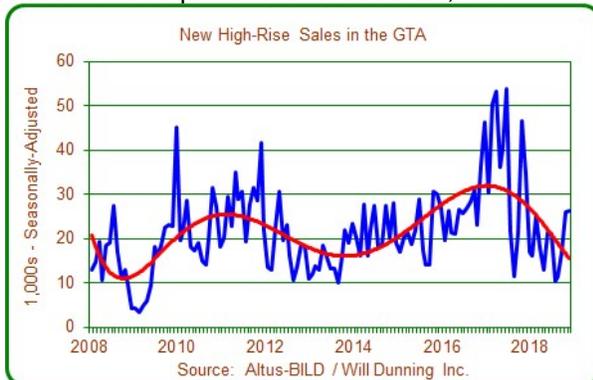
## New Homes Market

Once again, sales were far below the required level in November, at an annualized rate of 30,800 (based on 2,823 actual sales). So far this year, the sales rate has averaged just 22,600.

Low-rise sales were at a rate of 4,400 (and have averaged just 3,900 over the last 19 months). The minimum requirement (based on population growth) exceeds 20,000 and there is a further need to make up for under-production over the past decade.



Apartment sales were at an annualized rate of 26,400. The average rate this year is 18,700, close to the required level of about 20,000.



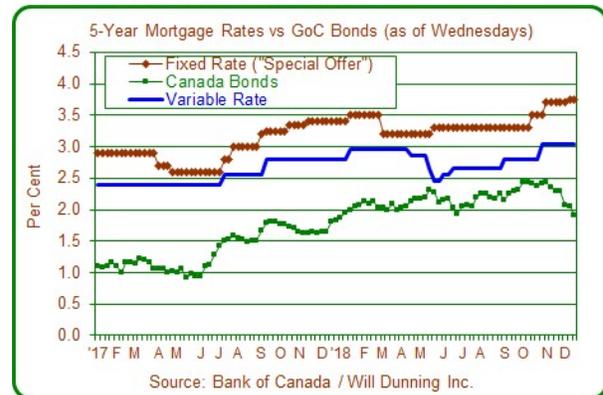
As commented previously, several factors will weigh on new condo apartment sales next year: the mortgage stress tests, higher interest rates, and a developing slowdown for headline (year-over-year) changes in condo resale prices, which will gradually discourage investors: CREA's House Price Index suggests that the annualized growth rate is 2.5% for the past 6 months (note that the sales spike during late 2016/early 2017 was related to a period of runaway price growth).



### Interest Rates

Bond yields have dropped during the past month (let's call it Trump Affective Disorder), from an average of 2.4% during October to sub-2% at present. Mortgage interest rates have not

followed. In fact, I have raised my opinion-estimate of the typical "special offer" rate from major lenders, to 3.75% for 5-year fixed rate mortgages. Competition had resulted in a very skinny mortgage vs bond spread (below 1 point). It's now back to average (about 1.8 points). Given the slow resale market, the spread should be smaller and interest rates should be lower.



### The Outlook

No changes have been made to my forecasts.

<b>Toronto Indicators</b>		
	<b>2018</b>	<b>2019</b>
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%
<b>GTA New Home Sales</b>		
Low-Rise	3,800	6,500
High-Rise	17,200	9,000
Total	21,000	15,500
<b>Housing Starts</b>		
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)		

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