

Housing Market Digest

Greater Toronto Area, January 2019

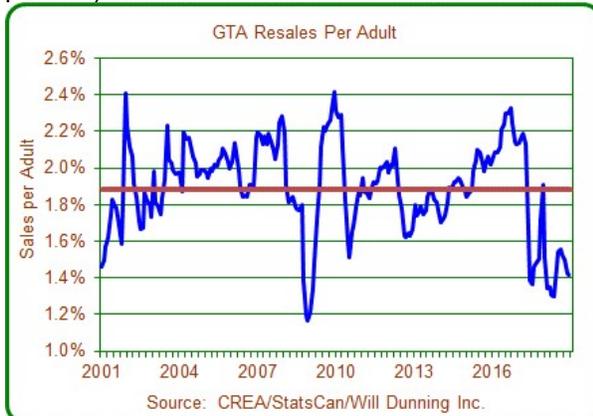
Synopsis: The mortgage stress tests continue to weight very heavily on the resale sector, and are beginning to impair new housing construction.

Resale Market

Sales remain depressed, at a seasonally-adjusted annualized rate of 77,800 in December. As commented many times before, the rate should be above 100,000.



The sales rate (per adult) for December (1.42%) is now 25% below the average (for 2001 to the present) of 1.88%.

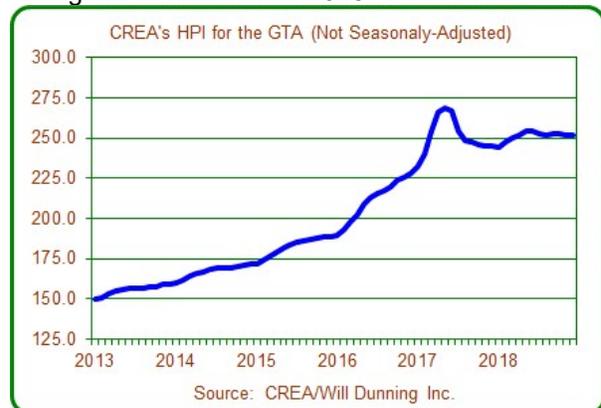


The flow of new listings into the market is also constrained, at 10% lower than it should be.

The sales-to-new-listings ratio is currently 49% (and 50% for the full year). These figures are slightly below the balanced market level, which is about 53%). This more-or-less neutral condition should be expected to result in prices that are flat or increasing very gradually.



There are two available sets of data on price trends from CREA. Both of them (the average price, after seasonal-adjustment and CREA's house price index, but which is not seasonally-adjusted) indicate that prices were roughly flat during the second half of 2018.

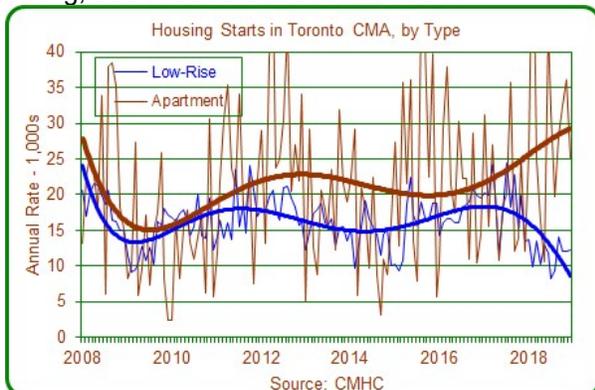


New Homes Market

It seems that the new home sales data for December isn't yet available. Instead, these two charts show housing starts (as reported by Canada Mortgage and Housing Corporation). For total housing starts (combining the four major dwelling types) it appears that the trend is flat or beginning to turn down, at a relatively high level. At this point, the trend for starts looks much more positive than for resales. But, we need to remember that starts result from pre-construction sales that occurred earlier and so a turning point for starts will occur later than for resales. (It should also be noted that due to the very high month-to-month volatility of the data it isn't possible to create a reliable trend line, and so it is unclear what is the "true" direction of the trend in the first chart.)



The second chart divides activity into two categories (note that CMHC usually reports the data as singles versus multiples. I find it more useful to look at low-rise versus apartments, so I have recalculated the two segments.) Low-rise starts respond more quickly to sales than apartments, so there has been an obvious drop in the trend for low-rises, from levels that were already too low (the trend should be above 20,000). For apartments, while pre-construction sales dropped sharply in 2018, starts are still strong, due to sales that occurred earlier.



Interest Rates

Bond yields have varied during the past month, but are roughly flat. In response to this relative stability, major lenders have dropped their "special offer" rates (5-year fixed rate mortgages), and my opinion-estimate is now 3.60%. The spread versus bonds is back to the historic average (about 1.8 points) and so I expect that these rates should become more attuned to movements in bond yields. Meanwhile, for variable rates, I have raised my opinion-estimate to 3.2%, but the spread versus the BoC Bank Rate is still low (1.2 points versus a long-term average of 1.5), indicating that there are still strong competitive pressures.



The Outlook

No changes have been made to my forecasts, but I have updated actual figures for 2018.

Toronto Indicators		
	2018	2019
Job Growth	1.9%	2.6%
Resales (units)	77,909	73,500
Sales-to-New-Listings Ratio	49.8%	48.6%
Ch. in Avg. Resale Price	-4.4%	-0.5%
GTA New Home Sales (1)		
Low-Rise	3,800	6,500
High-Rise	17,200	9,000
Total	21,000	15,500
Housing Starts		
Low-Rise Ownership	11,468	8,000
Condo Apartment	26,349	16,200
Rentals	3,290	2,500
Total	41,107	26,700
Apartment Vacancy Rate	1.1%	1.0%
Rent Increase	5.5%	4.5%

Source: forecasts by Will Dunning Inc. (Oct 24/18)
Note: (1) actual data for 2018 not yet available.

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