

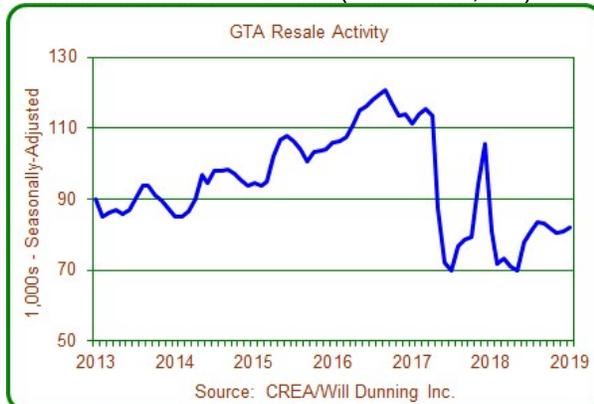
# Housing Market Digest

Greater Toronto Area, February 2019

**Synopsis: Sales figures improved slightly during January, but remain far too low. All eyes are on the federal budget (scheduled for March 19), to see how much the mortgage stress tests will be liberalized, and how much the government does care about young adults.**

## Resale Market

Resale activity increased slightly in January, to a seasonally-adjusted annualized rate of 81,400. As commented many times before, the rate is at least 20% lower than it should be (above 100,000).

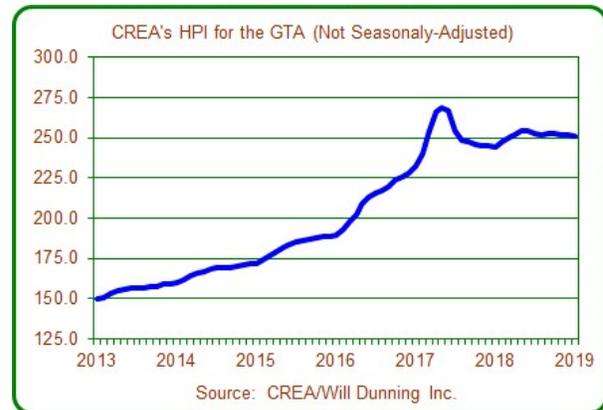


The sales-to-new-listings ratio has averaged 49.5% during the past year, but has increased slightly, to 53%, which matches my estimate of the balanced market threshold.



In consequence, it appears that prices have been roughly flat for almost a year. CREA's house price index is up by 2.7% versus a year ago, but this reflects rises last February to April. Therefore, by March or April (the data will be released in April or May) the year-over-year changes will likely show no increase. That might seem like a big deal at the time, but we know that prices are already flat.

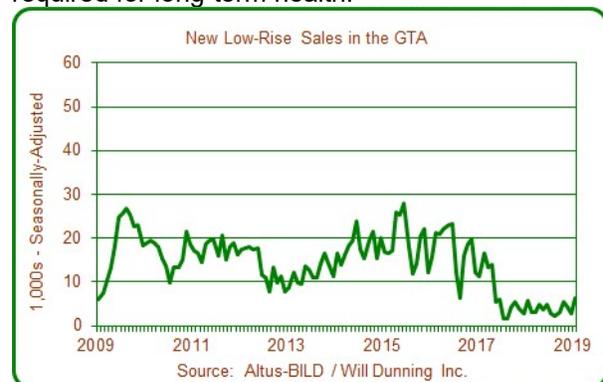
One piece of news that isn't getting enough coverage is that price growth has slowed sharply for condo apartments: year-over-year, the increase in the HPI is 8%, but there has been little growth since last August.



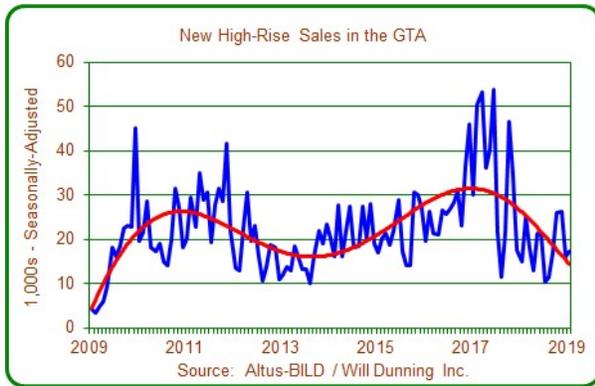
## New Homes Market

The sales rate also increased for new homes in January, but the annualized rate is still a very weak 23,600. Total sales for 2018 were just 25,161. This is 36% below the average for the past two decades (39,500).

Low-rise sales rose in January, to an annualized rate of 6,300. This is the highest figure since April 2017. But, I can't see this as good news, as it extends a string (now 31 consecutive months) of sales being far below the 20,000 minimum that is required for long-term health.

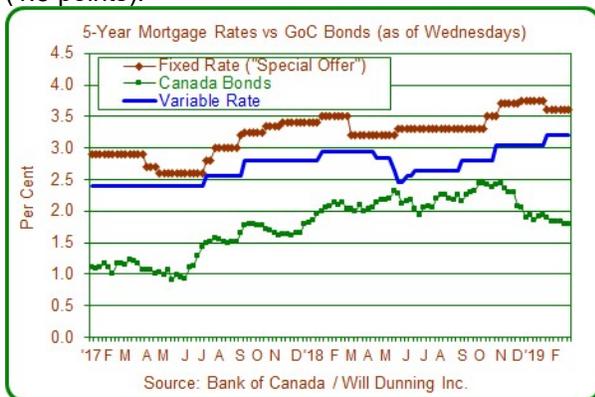


Apartment sales remain a bit weak, with the January rate at 17,300. I don't expect to see improvement this year: negative factors that will discourage potential buyers (owner-occupants and investors) include the stress tests, the deceleration of prices, and uncertainty associated with the large volume of apartments under construction (an all-time record of 59,942 in the Toronto CMA – this includes rentals and condos).



### Interest Rates

Interest rates have shown little change during the past month. Bond yields are down fractionally (currently in the area of 1.8% for 5-year Government of Canada). My opinion-estimate of major lenders' "special offer" rate (5-year fixed rate mortgages), is unchanged at 3.60%. The spread versus bonds has returned to the historic average (1.8 points).



### A Quick Overview of My Views on the Mortgage Stress Tests

Home ownership is the foundation of a sensible lifetime financial plan. The stress tests are an undue impediment to achievement of lifetime financial security. If you haven't seen my report "Owning versus Renting a Home in Canada" (published last September) I recommend it: <https://mortgageproscan.ca/docs/default-source/government-relations/owning-vs-renting-2018.pdf>

The stress tests fail to consider that borrowers' incomes will rise. Basing the stress test on a 0.75-point increment over contracted rates is a shortcut for taking income growth into account. CHBA has made an elegant addition to this, suggesting that

for terms shorter than five years and for variable rate mortgages the increments should be larger.

At low interest rates, mortgage principal is repaid very rapidly. The high rate of "forced saving" that results from 25-year amortization is an undue impediment to home ownership: 30-year amortization is a reasonable solution, especially considering that most borrowers make additional payments that will shorten actual amortization.

If you disagree with any of this, try talking (with empathy) to some millennials.

By mid-2021, the stress tests will cause the level of employment in Canada to be 200,000 lower than it would otherwise be.

### The Outlook

No changes have been made to my forecasts. At present, there really isn't any point in trying to forecast housing activity (and even the economy), because it all depends on what changes the federal government makes to the stress tests.

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		
Low-Rise	3,831	6,500
High-Rise	21,330	9,000
Total	25,161	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)		

### How to Reach Will Dunning Inc.

Telephone: 416-236-5115  
 Email: [wdunning@sympatico.ca](mailto:wdunning@sympatico.ca)  
 Web site: [www.wdunning.com](http://www.wdunning.com)

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