Housing Market Digest

Greater Toronto Area, April 2019

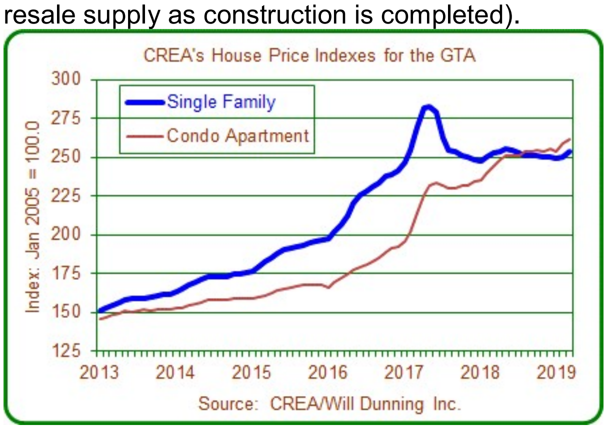
Synopsis: Sales activity, for both existing and new homes, remains far below where it should be. Given a strong employment situation and population growth at the fastest pace in a generation, sales of new and existing homes should be above-average, not below.

Resale Market

Resale activity should have rebounded in March (since sales in February had been affected by unusually harsh weather). Instead, there was just a small improvement. For the first quarter, the sales rate was an annualized 77,300. This is one-quarter below the level (100,000 to 105,000) that might be expected, based on the long-term relationship between sale activity and population.

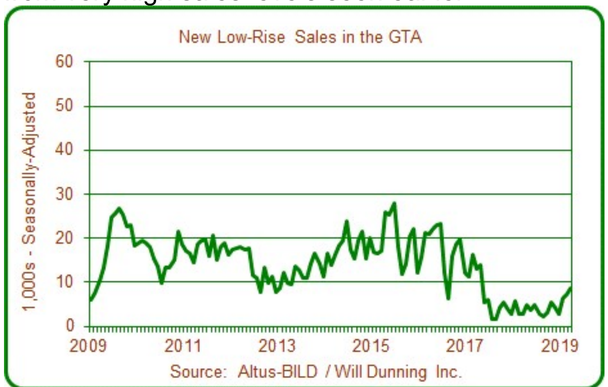
The sales-to-new-listings ratio averaged 52.5% during the first quarter, which is just slightly below the balanced market threshold (which I estimate at 54% – this is the level at which prices would be expected to rise by 2% per year).

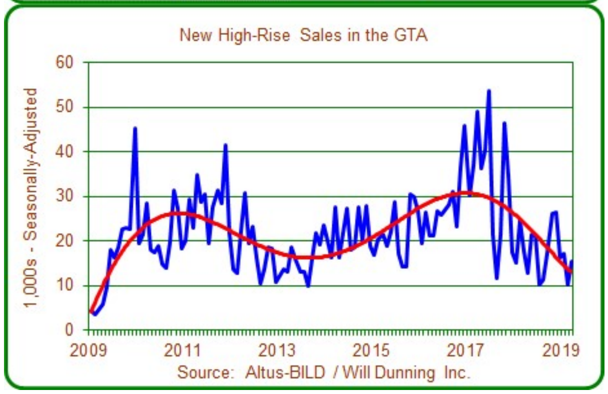
Correspondingly, CREA's House Price Index for the GTA is showing modest growth (a year-over-year change of 2.6%). However, single family pricing is essentially flat (up by just 0.5%) whereas the index for condominium apartments is up by 7.2%. I continue to expect that price growth will decelerate for condos, due to the very large under construction inventory (which will result in more resale supply as construction is completed).



New Homes Market

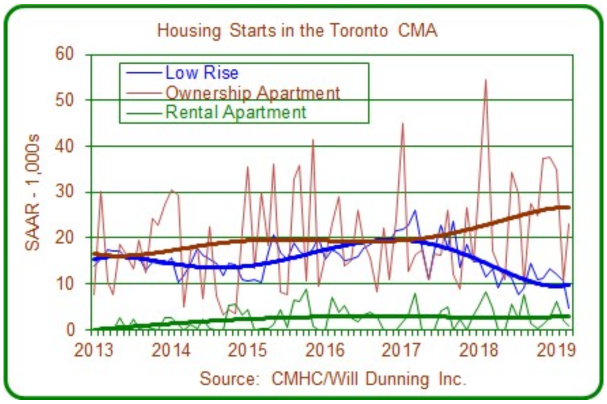
Sales remain weak, with the annualized sales rate at 24,100 for March (and an average of 21,700 for the first quarter). The rate should exceed 40,000, to accommodate population growth. Low-rise sales are gradually improving. But at just 8,700 for March (and 7,400 for the first quarter) activity is one-third of what it should be (above 20,000). Apartment sales are trending downwards, with the rate at 15,400 for March (and 14,300 for the first quarter). In some ways, this is a welcome respite from very high sales levels seen earlier.





Housing Starts

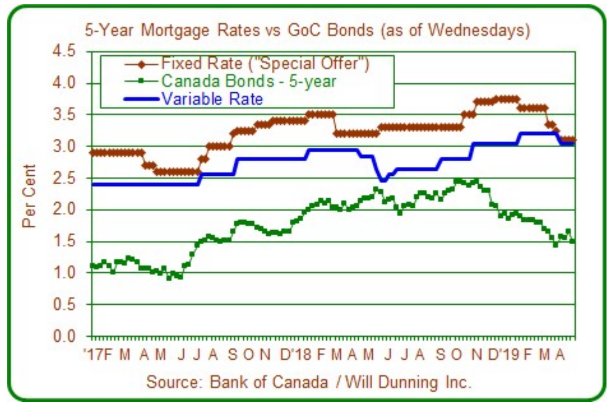
Construction activity has been slow to follow changes in new home sales. Within the Toronto CMA, low-rise activity has clearly turned down, but apartment starts are still being supported by sales that occurred much earlier. The volume of housing under construction is at an all-time record high, which continues to support a high level of employment in construction and related industries. However, the under construction inventory will soon began to shrink, with very gradual negative consequences for employment.



Interest Rates

Expectations about the economic outlook are fluid, which is resulting in some large day-to-day changes in bond yields. Following the release of the Bank of Canada's Monetary Policy Report (on the 24th) Canadian bond yields dropped sharply. The BoC has moved to a neutral position concerning future changes for its administered benchmark rate, as economic conditions are weaker than it had been expecting. It does, however, point to factors that will bring improvements – including less impact from the mortgage stress tests. It seems to me that they aren't giving enough consideration to the effects of falling housing starts (and reduced residential renovation) which will result in a long period of gradual reductions of related employment. Therefore, the BoC might not be pessimistic enough, and I expect that the next move for the administered rate will be down (but not for a few more months). Meanwhile, I also expect that bond yields fell by too much and they might increase.

I have reduced my opinion-estimate of major lenders' "special offer" rate (5-year fixed-rate mortgages) for the fourth time this year. From a peak of 3.75%, the rate is now 3.1%. Typical rates for variable rate mortgages are also down (my opinion-estimate is now 3.05%). The mortgage market is currently quite competitive, with the result that the mortgage-bond spread (1.6 points) is below the long-term average of 1.8.



The Outlook

No changes have been made to my forecasts. They suggest that sales will remain depressed in both the resale and new home sectors. Prices are projected to be flat. Inadequate production of new housing (suppressing movements out of rentals) will continue to create pressures within the rental sector.

Toronto Indicators		
	2018	**2019**
Job Growth	1.9%	2.8%
Resales (units)	77,909	74,400
Sales-to-New-Listings Ratio	49.8%	50.6%
Ch. in Avg. Resale Price	-4.4%	0.0%
GTA New Home Sales		
Low-Rise	3,831	7,700
High-Rise	21,330	15,500
Total	25,161	23,200
Housing Starts		
Low-Rise Ownership	11,468	9,000
Condo Apartment	26,349	17,200
Rentals	3,290	2,800
Total	41,107	29,000
Apartment Vacancy Rate	1.1%	1.0%
Rent Increase	5.5%	4.0%
Source: forecasts by Will Dunning Inc. (March 23/19)		

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