

# Housing Market Digest

Greater Toronto Area, May 2019

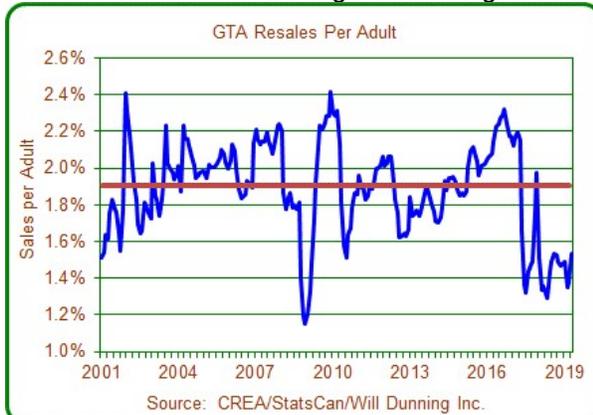
**Synopsis: Lower interest rates should cause a substantial rise in sales for May and June. This will not mean that the effects of the stress test are diminishing – it will mean that those effects are being masked by an improvement in the economic fundamentals. Sales activity will remain much weaker than it ought to be, as tens of thousands of middle-class Canadians are frustrated by unduly harsh mortgage lending policies.**

## Resale Market

Resale activity improved in April, to an annualized rate of 84,700. But, I am not going to portray this as good news. Interest rates have fallen sharply this year, and in that light sales remain muted.

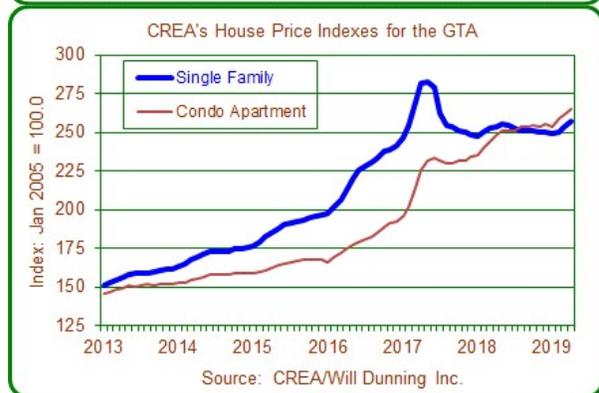


Looking at sales on a per adult basis, April sales were still 20% below the long-term average.



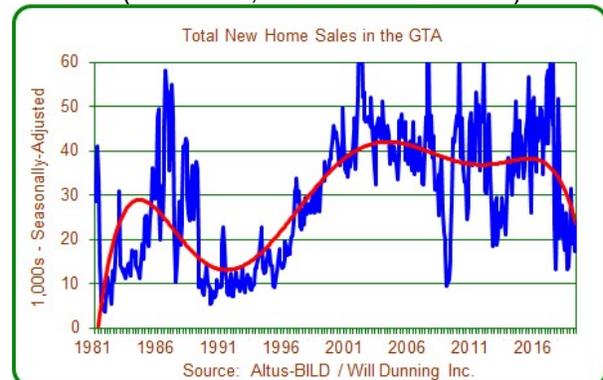
The sales-to-new-listings ratio has improved slightly compared to a year ago. At 52.9% for April (and an average of 50.8% over the past year) it remains slightly below the balanced market threshold (which I estimate at 54% – this is the level at which prices would be expected to rise by 2% per year).

Correspondingly, CREA's House Price Index for the GTA is showing moderate growth (a year-over-year change of 3.2%). However, single family pricing is up by just 1.5%, whereas the index for condominium apartments is up by 6.8%. Price growth continues to decelerate for condos.



## New Homes Market

New home sales data for April haven't been published yet. Thus, this chart shows the data up to March (total sales, at an annualized rate).



During the past 12 months, sales have totaled 22,500 units. To keep up with population growth requires in excess of 40,000, and to alleviate long-term shortages requires a further large increment (a total in excess of 50,000 units per year). It takes time for sales to translate into housing starts.

Starts of low-rise homes have fallen very substantially. For apartments, the pre-construction processes take longer, and therefore the trend remains very high. I continue to expect that a substantial downturn for apartment starts will develop this year and into next year.



### Other News

In a new report “The False Binary”, issued on May 29, I provided research on the housing market and economic consequences of the mortgage stress tests. The key message is that the federal government needs to get engaged in discussing the arguments that are actually being made, rather than pretending that critics are calling for elimination of the stress tests. Those critics are often being demonized as self-interested, and therefore they should be ignored. That is not good government. Spoiler alert: the critics are not calling for abolition, they are pointing out problems and trying to start a discussion on improvements.

The government’s early response to the report is to continue to say that only it can be trusted to make good decisions - it is still not engaging with the arguments that are being made. The report can be found here:

<https://mortgageproscan.ca/advocacy/federal-matters/news/2019/05/29/new-report-examines-stress-test-impacts>

### Interest Rates

Economic fears are once again pushing bond yields downwards. Today (May 31) the 5-year GoC yield is slightly above 1.4%.

I have reduced my opinion-estimate of major lenders’ “special offer” rate (5-year fixed-rate mortgages) for the fifth time this year. From a peak of 3.75%, the rate is now 2.95%. Variable rates are also down (also 2.95%). Intense competition has reduced the mortgage-bond spread (1.5 points) versus the long-term average of 1.8.



### The Outlook

No changes have been made to my forecasts. If interest rates remain at their reduced levels, sales activity (resale and new) will be higher than forecast, but will still be too low, negatively affecting employment in the mid-term and contributing to worsening long-term shortages in both the ownership and rental sectors.

<i>Toronto Indicators</i>		
	<b>2018</b>	<b>2019</b>
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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