Housing Market Digest

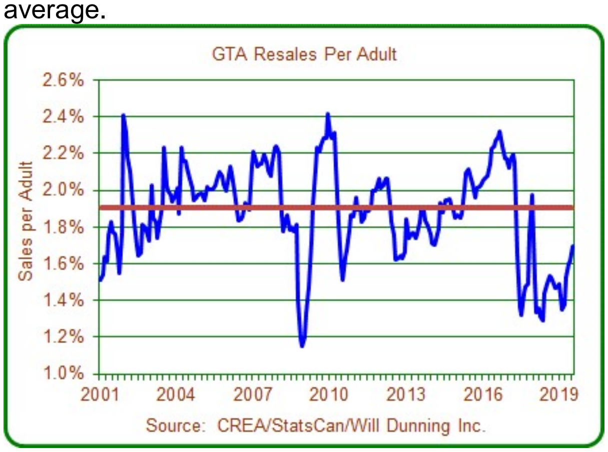
Greater Toronto Area, August 2019

Synopsis: A sharp drop in mortgage interest rates has brought some improvement for home sales. Activity for both resales and new homes remains far below potential, as the mortgage stress tests continue to suppress buying.

Resale Market

Resale activity has increased for five consecutive months. For July, the annualized rate was 94,300.

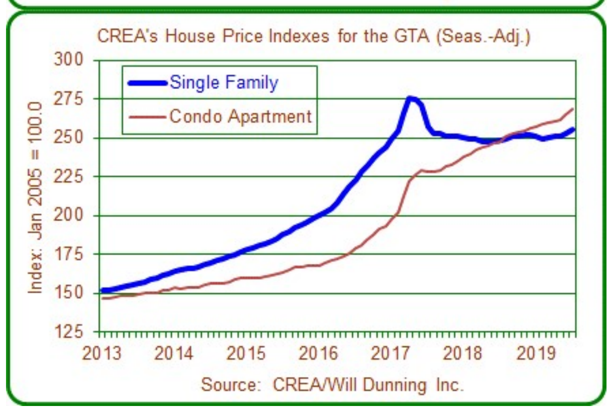
On a per adult basis, July sales were still 11% below average. Mortgage interest rates have fallen by a point since the start of the year, which should be resulting in sales that are substantially above average.



Flows of new listings into the market remain muted, as the population-adjusted volume of new listings was also 11% below average in July.

The sales-to-new-listings ratio has increased (58.6% in July). This is now far enough above the balanced market threshold (which I estimate at 54%) to generate price growth that slightly exceeds overall inflation.

Correspondingly, CREA's price index for the GTA is showing slightly faster price growth, at 4.5% as of July. Price growth remains quite rapid for condo apartments (8.4%, versus 2.8% for single-detached homes).

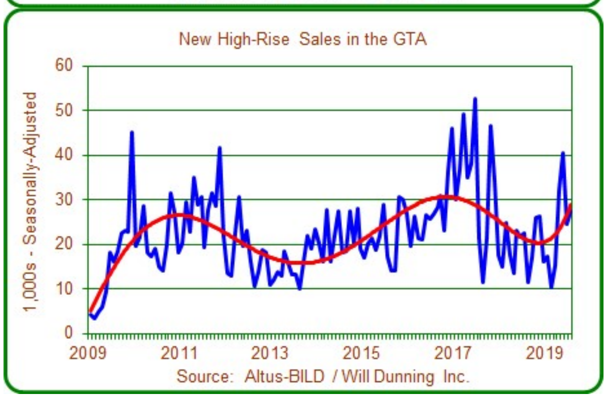


New Homes Market

New home sales remain weak, with the seasonally-adjusted rate for July at 35,100. This is still lower than required (a minimum of 40,000). The year-to-date average is just 32,300.

Sales of new low-rises dipped in July, to a seasonally-adjusted rate of 7,500 (based on 566 actual sales) and the year-to-date average is just 8,400. Sales have fallen short of the minimum required level of 20,000 for 37 consecutive months. This prolonged under-production will cause a worsened supply shortage in the low-rise resale market.

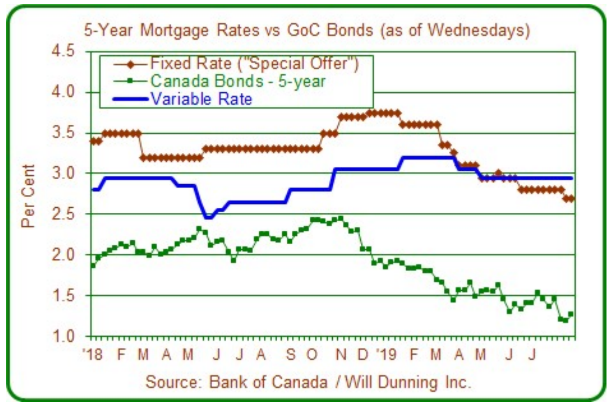
For apartments, the sales rate was 27,500 in July (based on 2,297 actual sales). The sales rates have been above 20,000 for four months, and the year-to-date average is now 23,900. Rapid price growth continues to encourage buyers. The huge under-construction inventory (still above 60,000 for rental+condo apartments) remains a threat, as high volumes of future completions will make it more difficult for investors to rent or sell when they take possession. This is likely to cause softer pricing and discourage pre-construction sales.



Interest Rates

Bond yields have fallen even more, as bad economic policies in the US are contributing to fears about the outlook. Current yields (in the area of 1.25% for 5-year Government of Canada bonds) are still higher than the record low of 0.6% seen three years ago.

My opinion-estimate of major lenders' "special offer" rate (5-year fixed-rate mortgages) is now 2.7%, versus 3.75% at the start of the year. This is actually lower than the typical variable rate (2.95%). With the posted rate at 5.19%, the stress tests remain unduly restrictive.



The Outlook

None of my forecasts have been changed. The forecasts for new low-rise activity (sales and starts) continue to assume that there will be an improvement in the supply situation, but that is far from a sure thing. In any reasonable scenario, under-production of new housing can be expected to cause further reductions in the rental vacancy rate, and rapid rent growth.

Toronto Indicators			
	2018	**2019**	**2020**
Job Growth	1.9%	3.4%	2.4%
Resales (units)	77,909	83,000	92,400
Sales-to-New-Listings	49.8%	53.3%	54.2%
Ch. in Avg. Resale Price	-4.4%	1.5%	0.3%
GTA New Home Sales			
Low-Rise	3,831	9,500	13,500
High-Rise	21,330	22,000	22,500
Total	25,161	31,500	36,000
Housing Starts (CMA)			
Low-Rise Ownership	11,468	9,300	12,900
Condo Apartment	26,349	17,500	18,900
Rentals	3,290	3,400	2,500
Total	41,107	30,200	34,300
Apt. Vacancy Rate	1.1%	0.9%	0.6%
Rent Increase	5.5%	4.2%	4.5%
Source: forecasts by Will Dunning Inc. (July 29/19)			

How to Reach Will Dunning Inc.

Telephone: 416-236-5115
Email: wdunning@sympatico.ca
Web site: www.wdunning.com

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