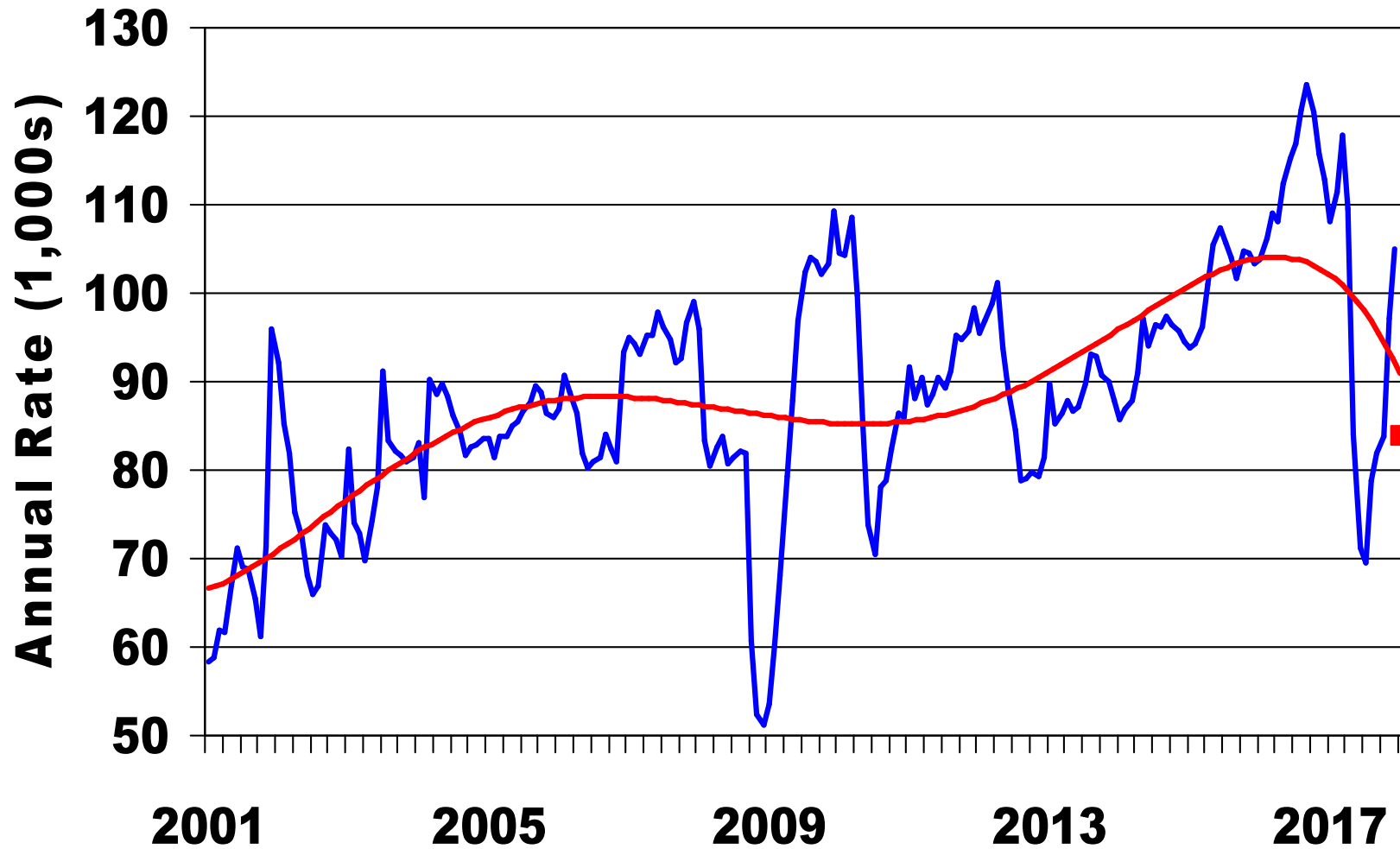


# GTA Housing Market Overview

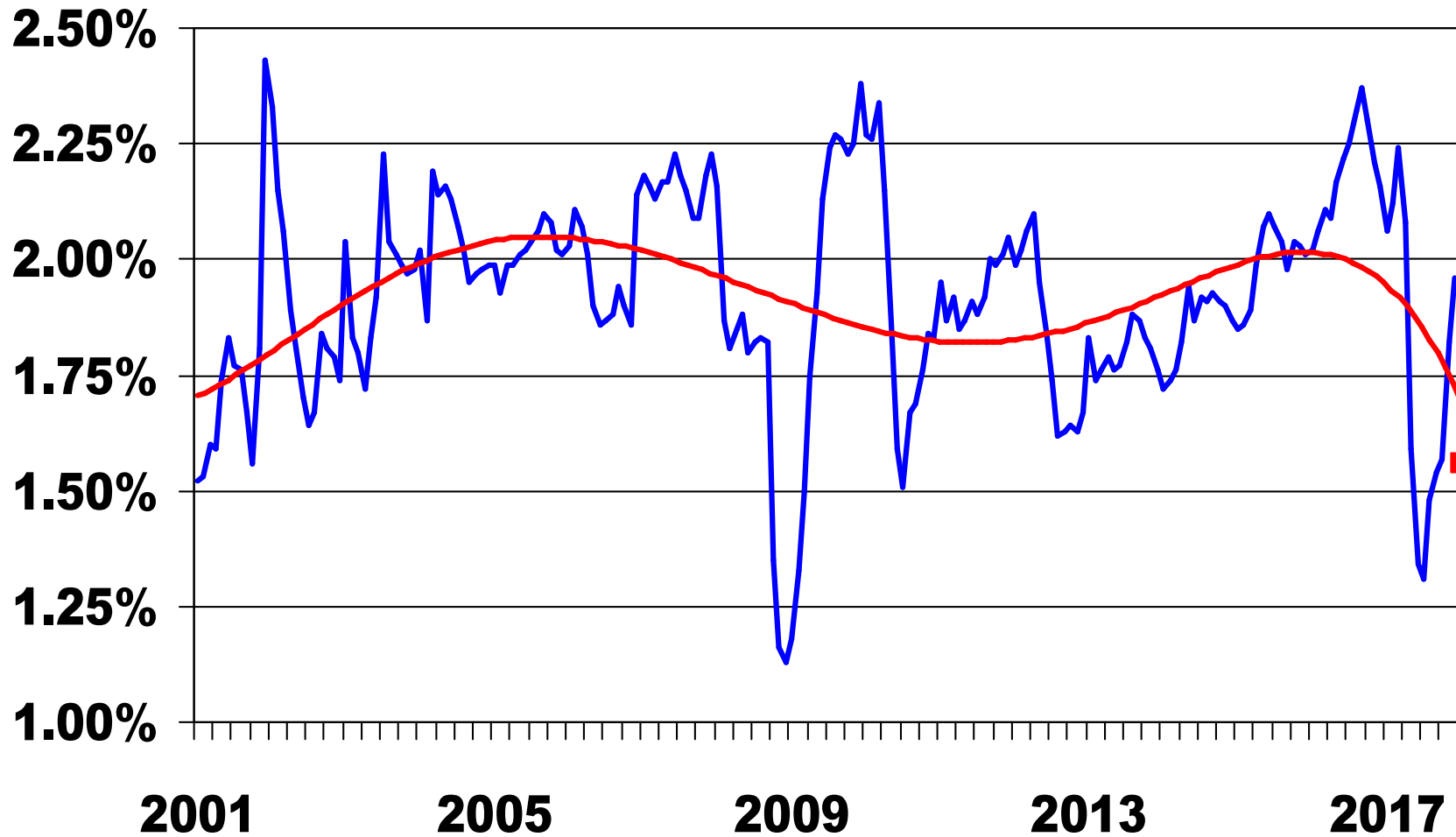
Will Dunning  
February 13, 2018

# Resale Activity in the GTA



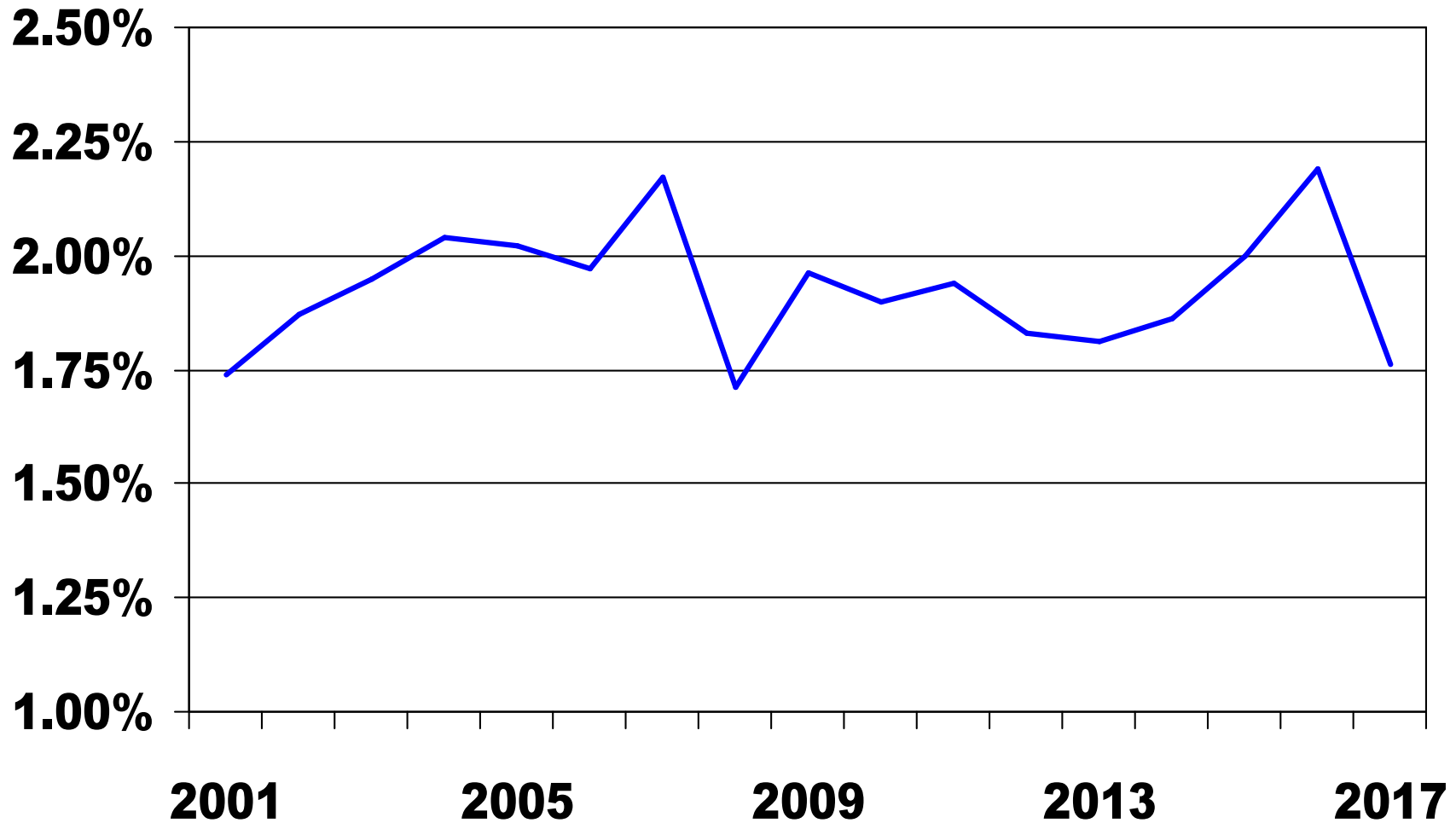
Source: CREA

# Per Adult - Resale Activity in the GTA



**Source: calculations by Will Dunning**

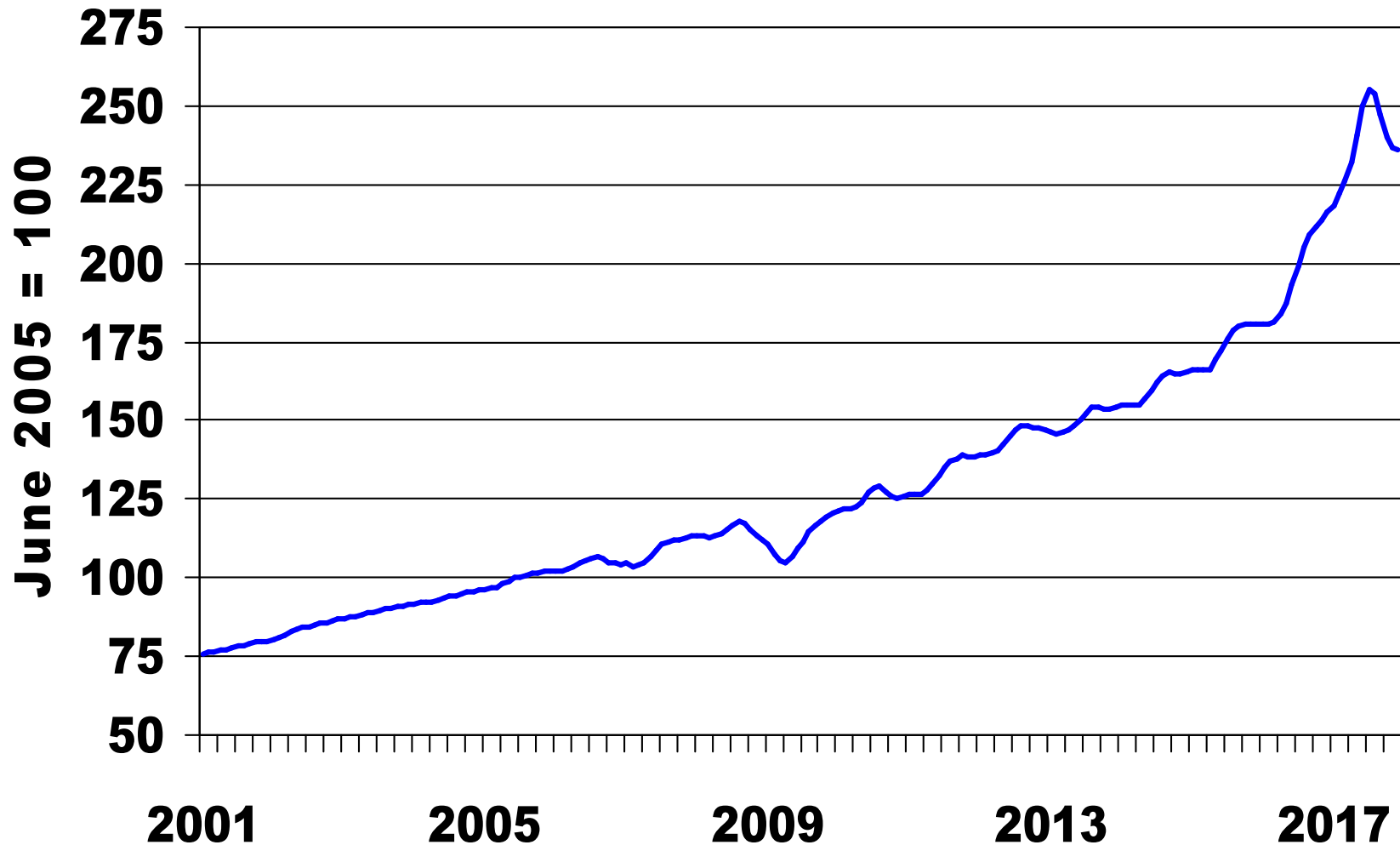
# Per Adult - Resale Activity in the GTA



**Source: calculations by Will Dunning**

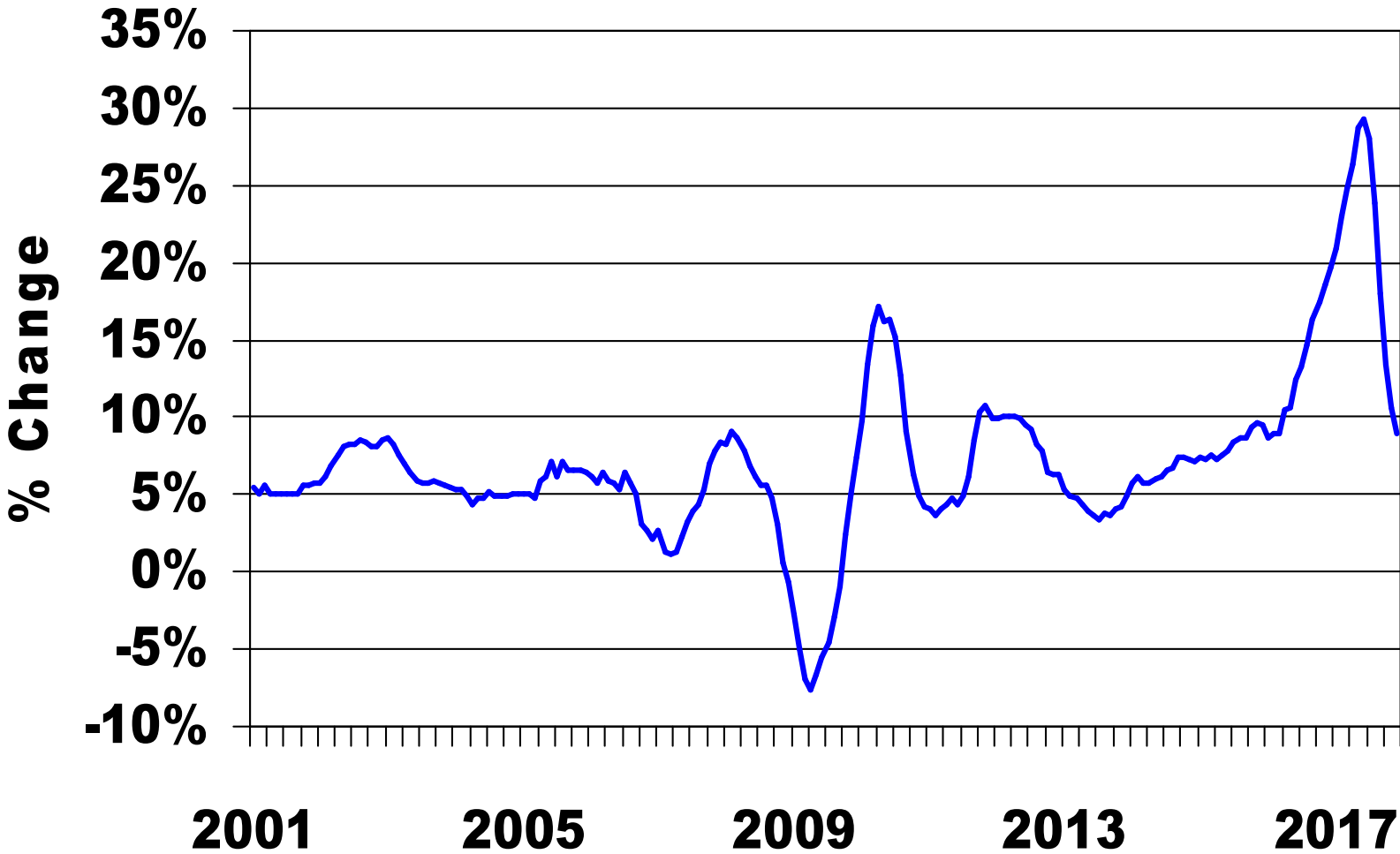
House price growth is  
influenced by supply  
and demand

# House Price Index for the GTA



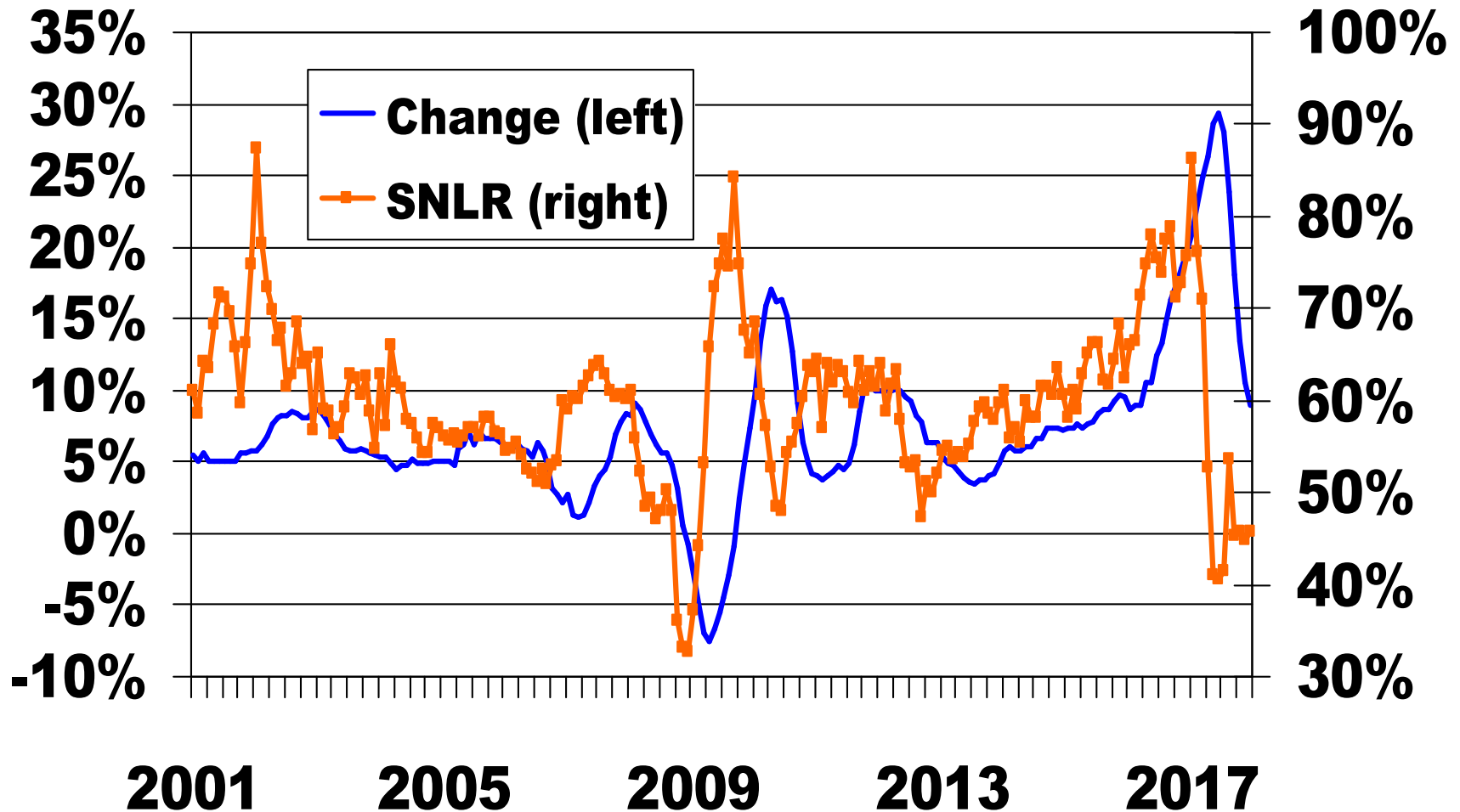
Source: Teranet / National Bank

# House Price Growth in the GTA



Source: Teranet / National Bank

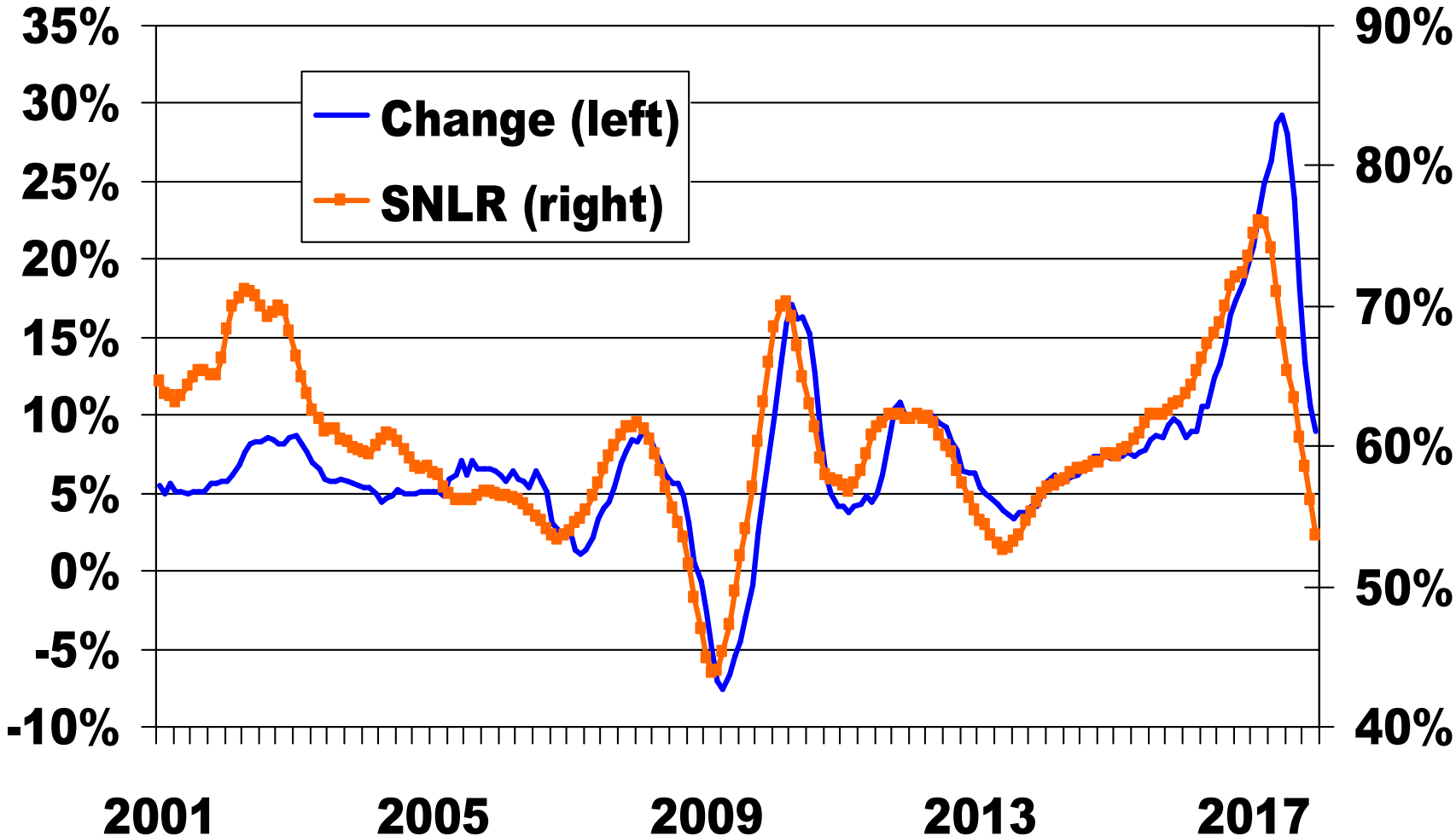
# GTA House Price Growth vs SNLR



Source: Teranet / National Bank / CREA



# GTA House Price Growth vs Trend of SNLR



Source: Teranet / National Bank / CREA

# Results of Statistical Analysis

SNLR does a good job of “explaining” price growth.

Price growth = 2% when SNLR = 52%

- *At 60% SNLR, should expect 6.6% price growth;*
- *At 40%, expect -5.7%*

But:

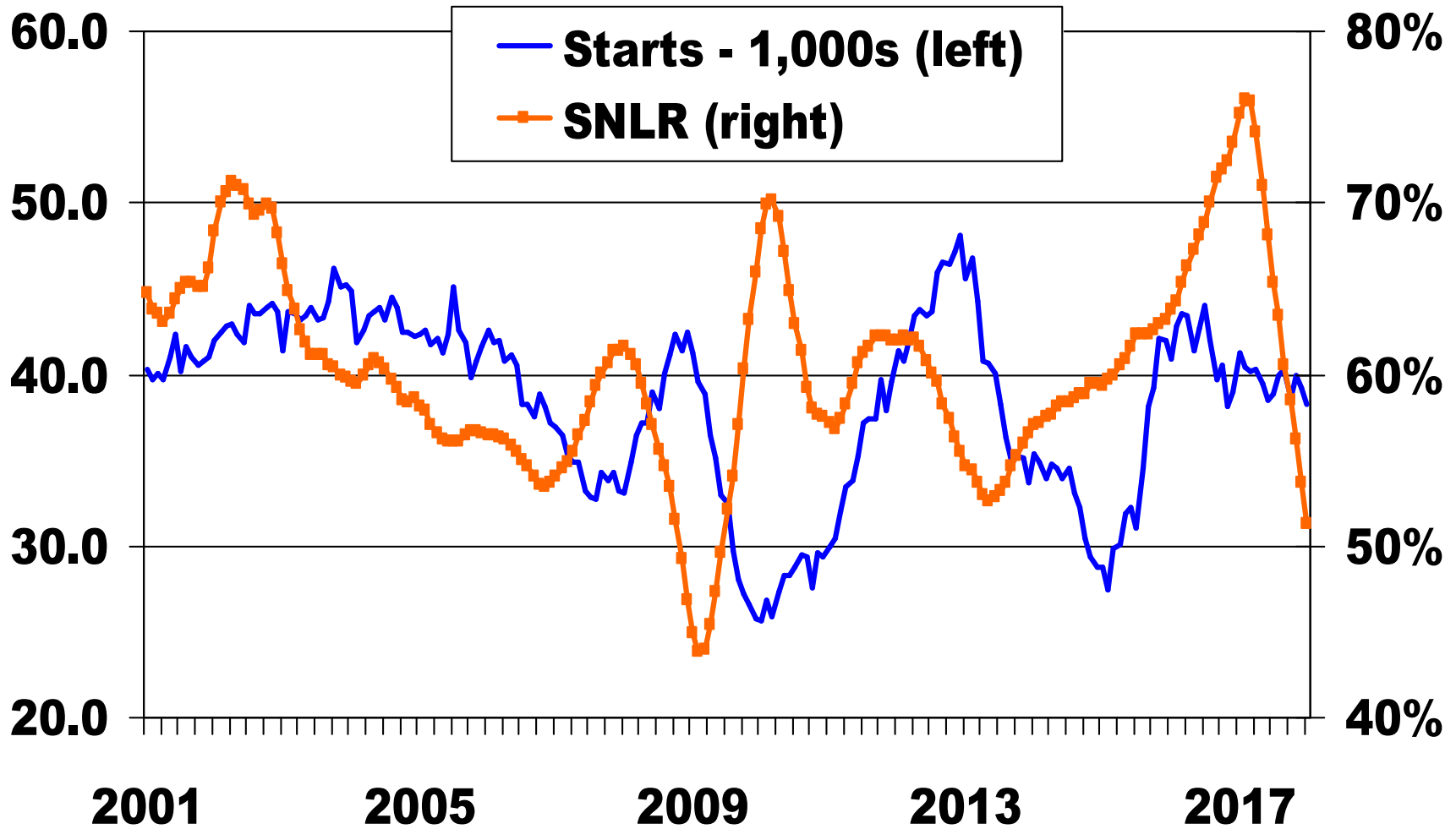
- *Is the relationship stable?*
- *SNLR only explains 45% of price growth. What about the other 55%?*
- *To use this in forecasting, I need to know what will happen to SNLR.*

“Economists Don’t Predict the  
Future Because They Know;  
They Predict Because They’re  
Asked”

*John Kenneth Galbraith*

Housing starts are  
influenced by the state of  
the resale market

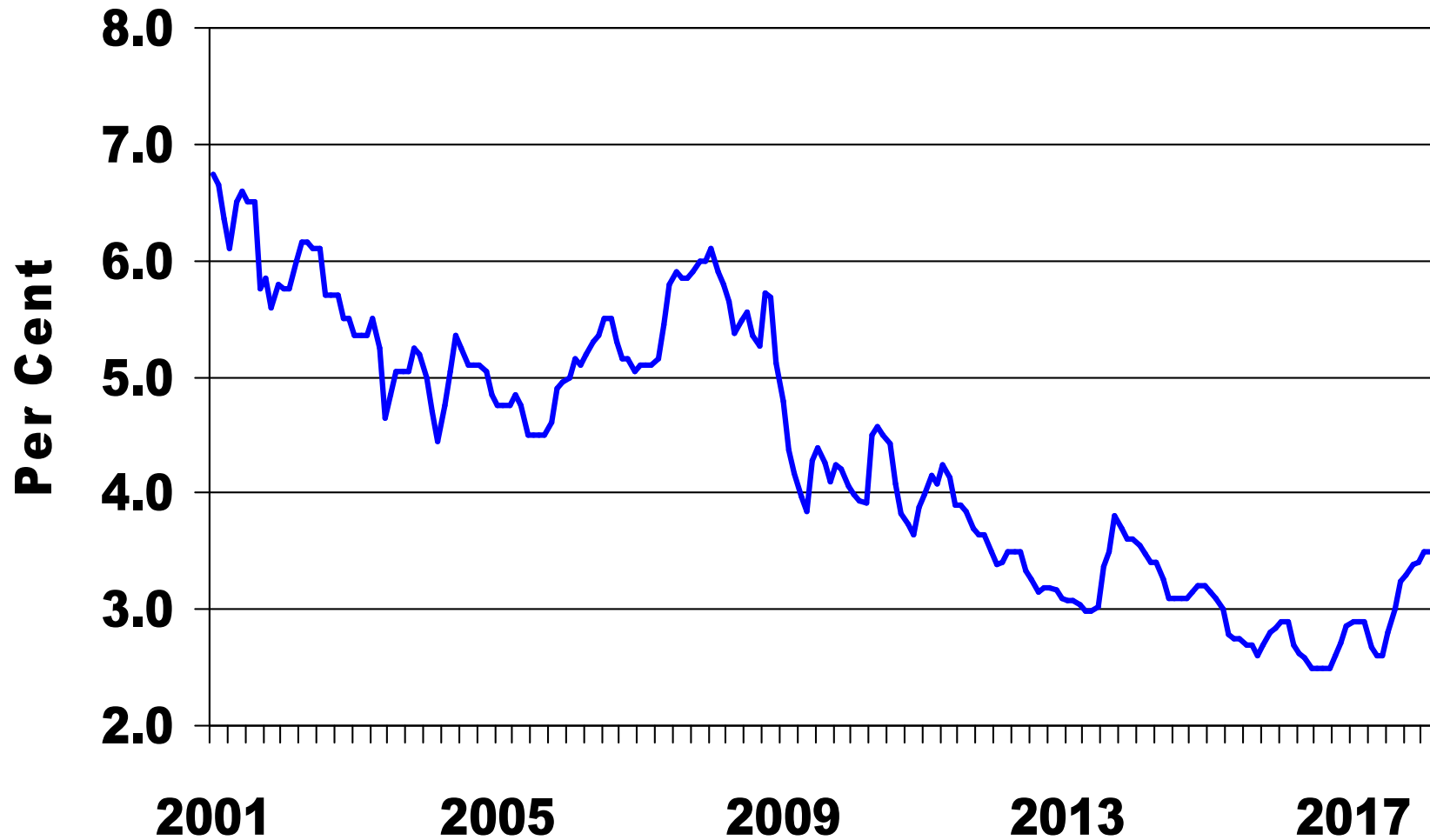
# Toronto Starts vs SNLR (Trends)



Source: CREA / CMHC

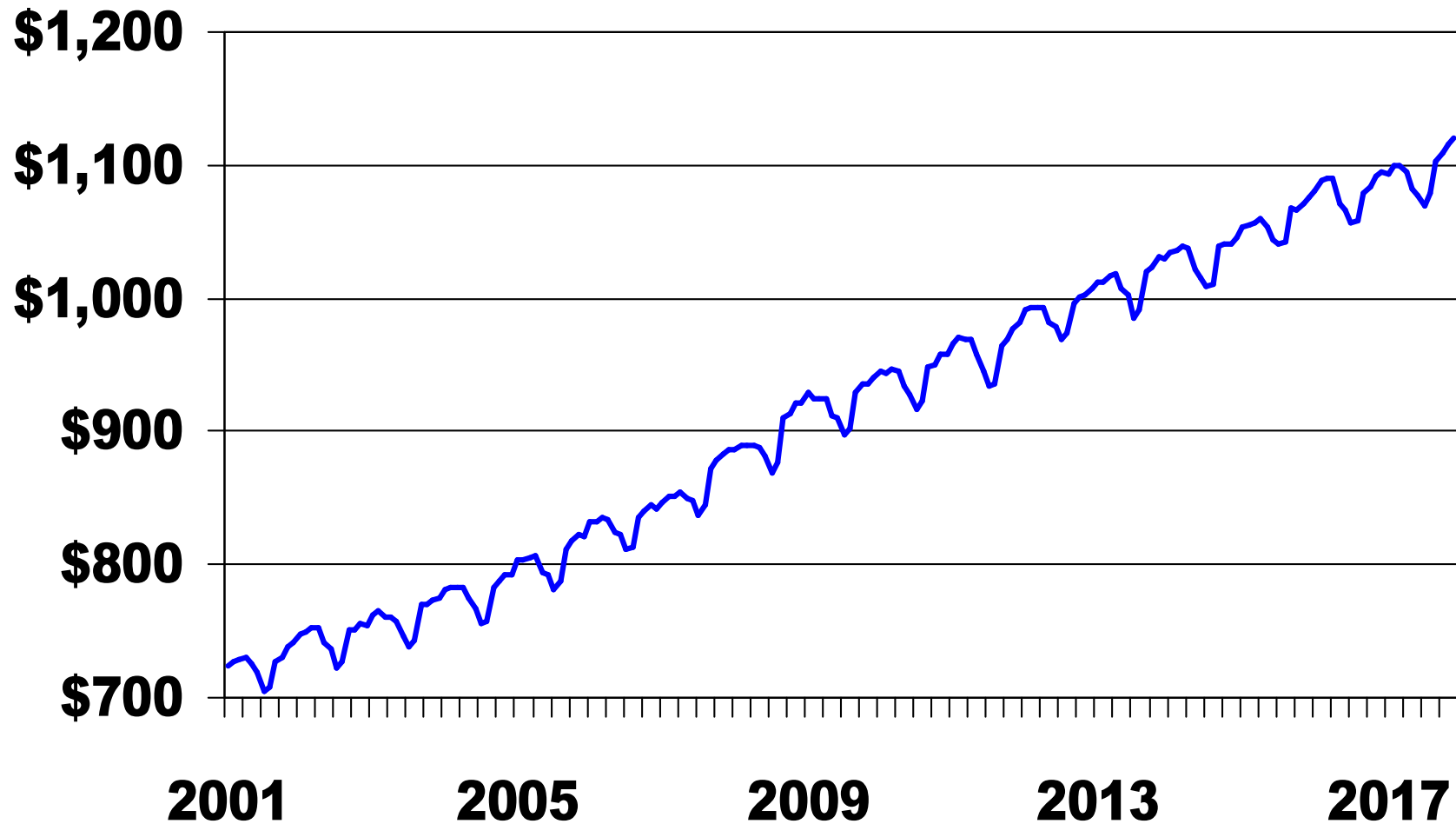
Home ownership  
affordability is much better  
than is widely stated

# “Special Offer” Mortgage Rates



Source: Will Dunning

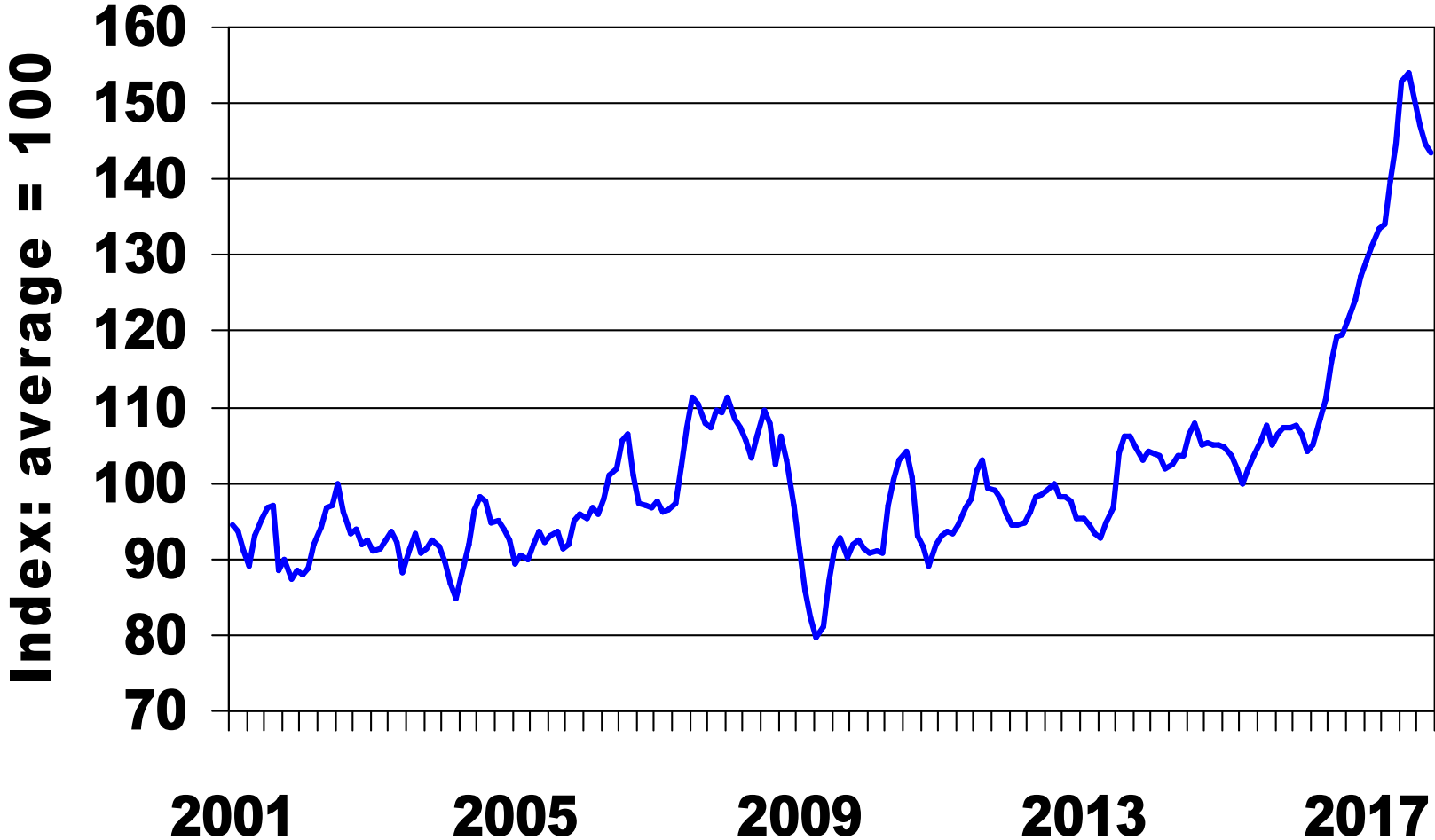
# Average Wages (Canada)



Source: Statistics Canada

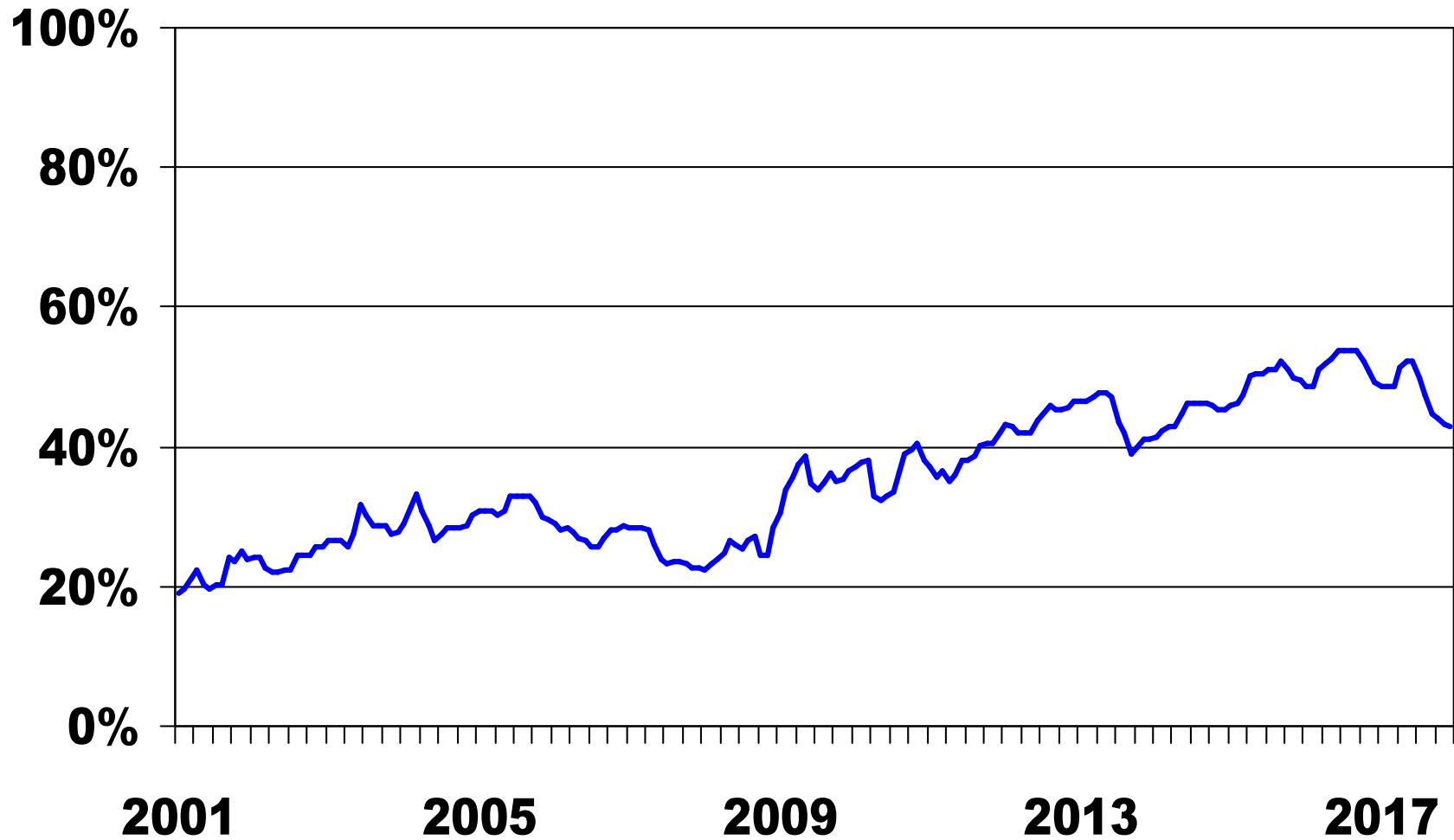


# Mortgage Cost Index – Toronto



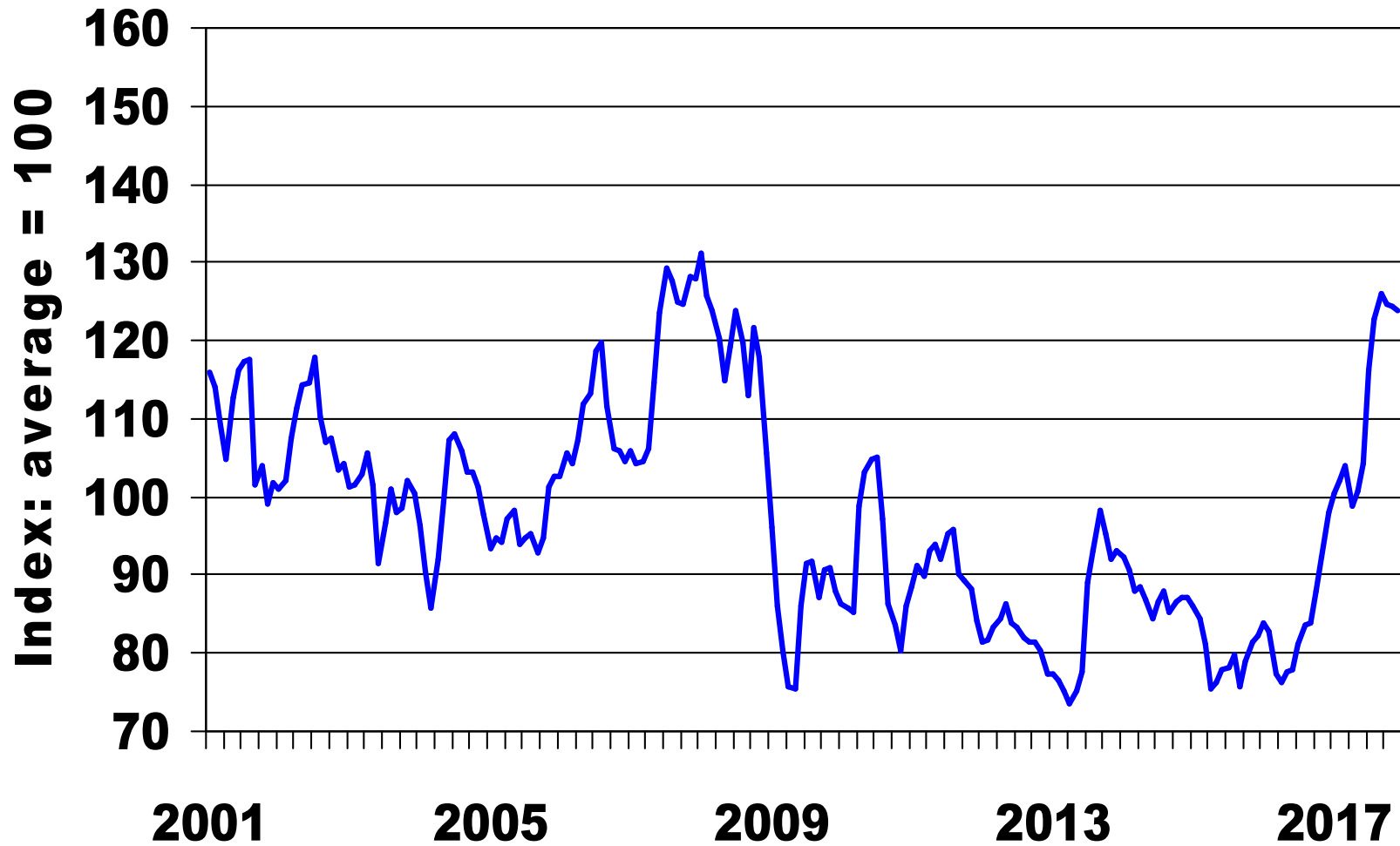
Source: calculations by Will Dunning

# % of 1<sup>st</sup> Payment Going to Principal



**Source: calculations by Will Dunning**

# Net Mortgage Cost Index – Toronto



**Source: calculations by Will Dunning**

# Owning vs Renting - Assumptions

Mississauga Town Home	
Purchase Price	\$650,000
Rent (Monthly)	\$1,800
Tax Rate	0.849372%
Utility Costs (Monthly)	
Heat	\$150
Hydro	\$150
Water tax	\$50
Maintenance	\$50

# Cost Comparison

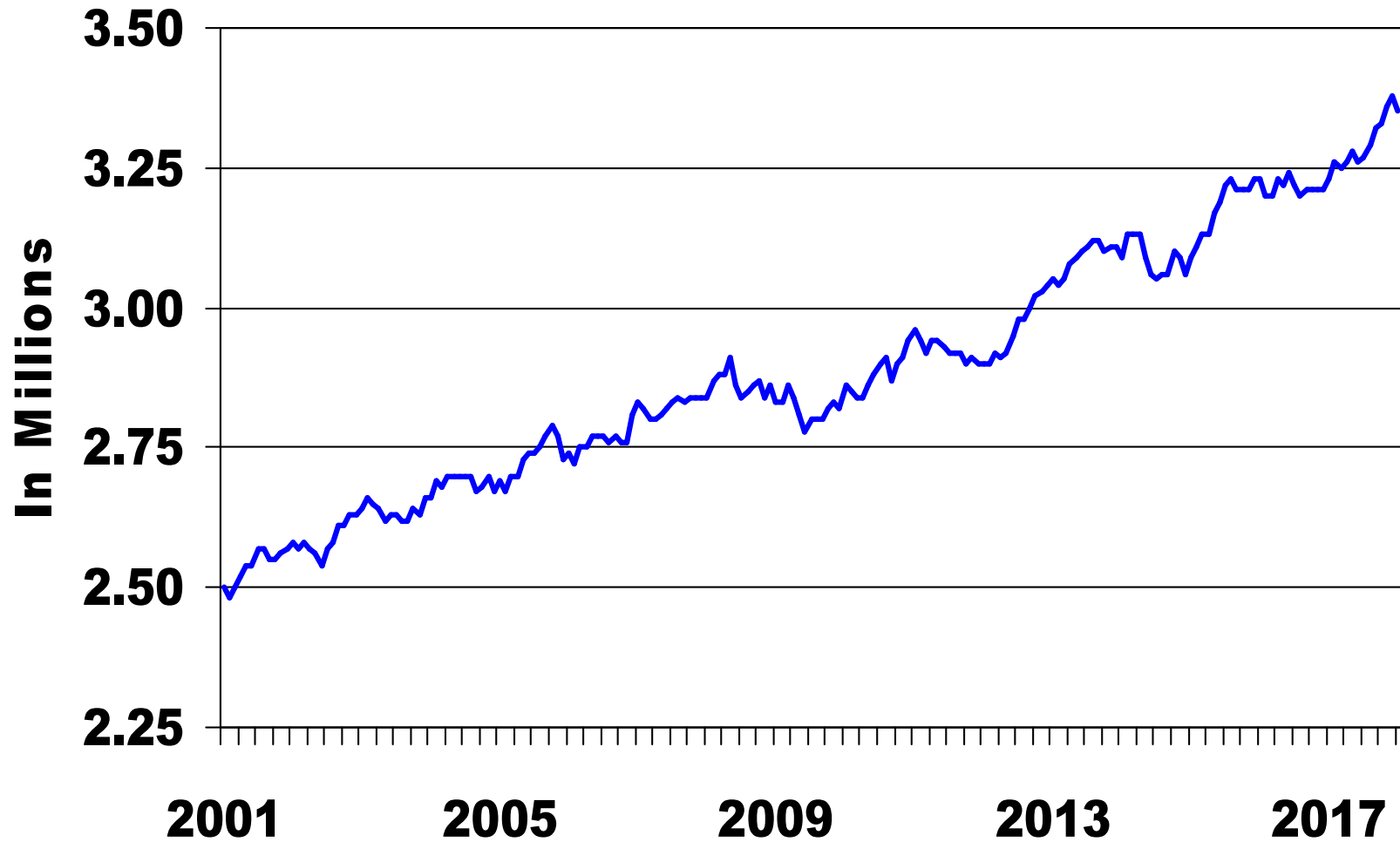
Monthly Cost	Renting	Owning
Rent	\$1,800	
Mortgage Payment		\$2,461
Realty tax		\$460
Utility Costs	\$350	\$350
Maintenance		\$50
Total	\$2,150	\$3,321
Minus Principal Repayment		-\$1,169
Net Cost	\$2,150	\$2,152
Difference		-\$2
Return on \$130,000 Equity		-0.02%

## In 5 Years

Monthly Cost	Renting	Owning
Rent	\$2,037	
Mortgage Payment		\$2,461
Realty tax		\$521
Utility Costs	\$396	\$396
Maintenance		\$57
Total	\$2,433	\$3,434
Minus Principal Repayment		-\$1,357
Net Cost	\$2,433	\$2,077
Difference		\$355
Return on \$130,000 Equity		3.28%

Job creation is critical to  
the housing market

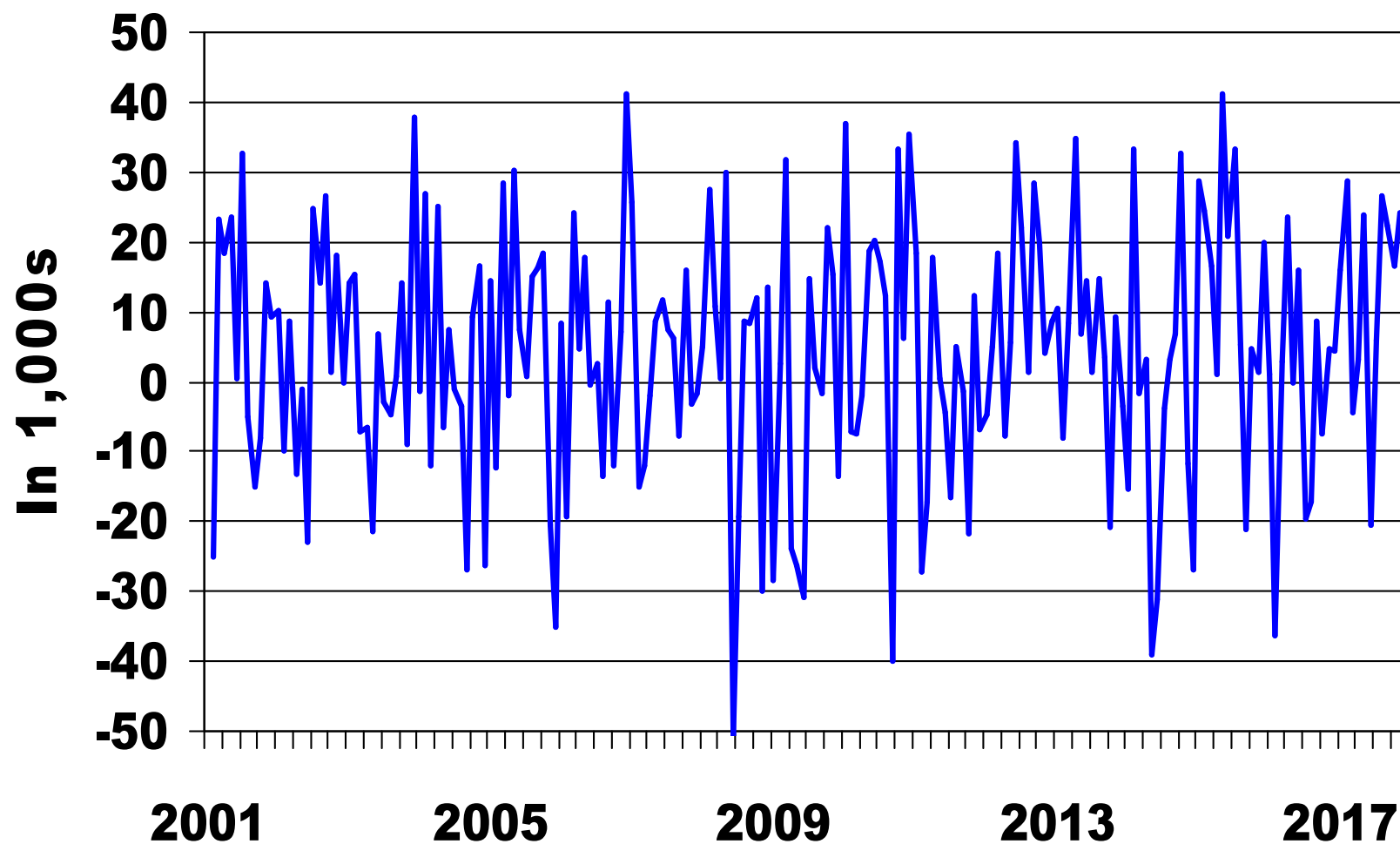
# Employment in the Toronto CMA



**Source: Statistics Canada**

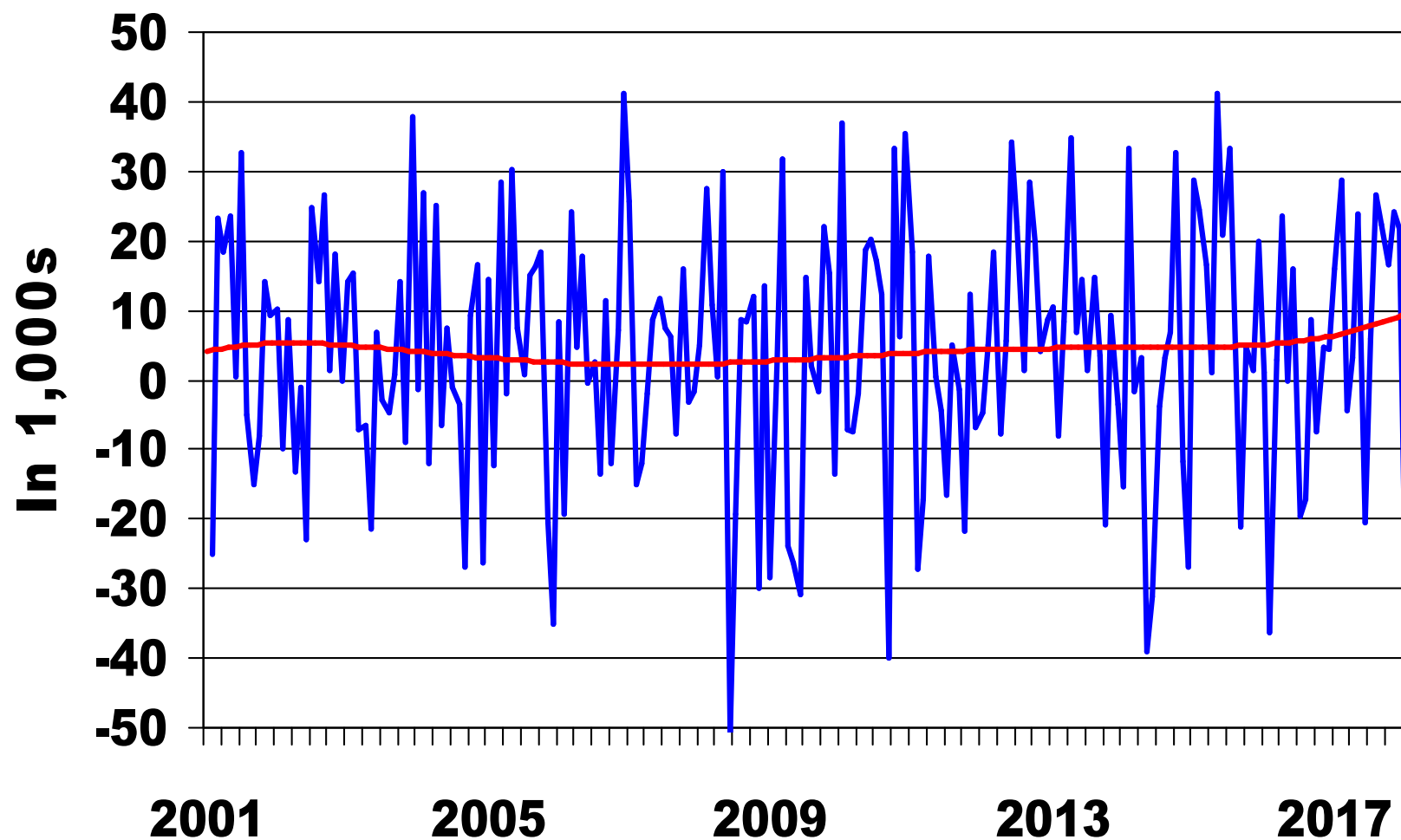


# Monthly Job Growth in the Toronto CMA



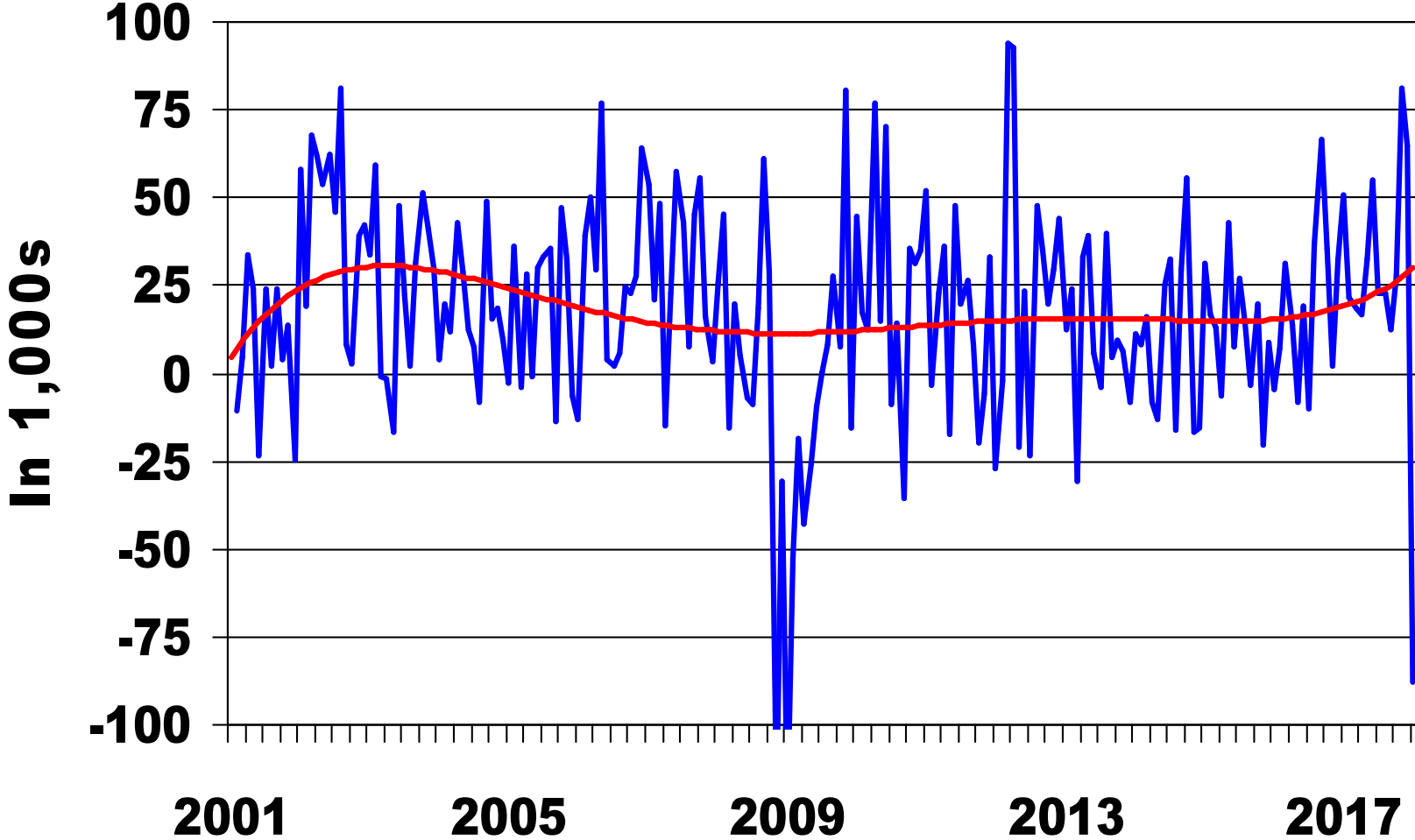
Source: Statistics Canada

# Monthly Job Growth in the Toronto CMA



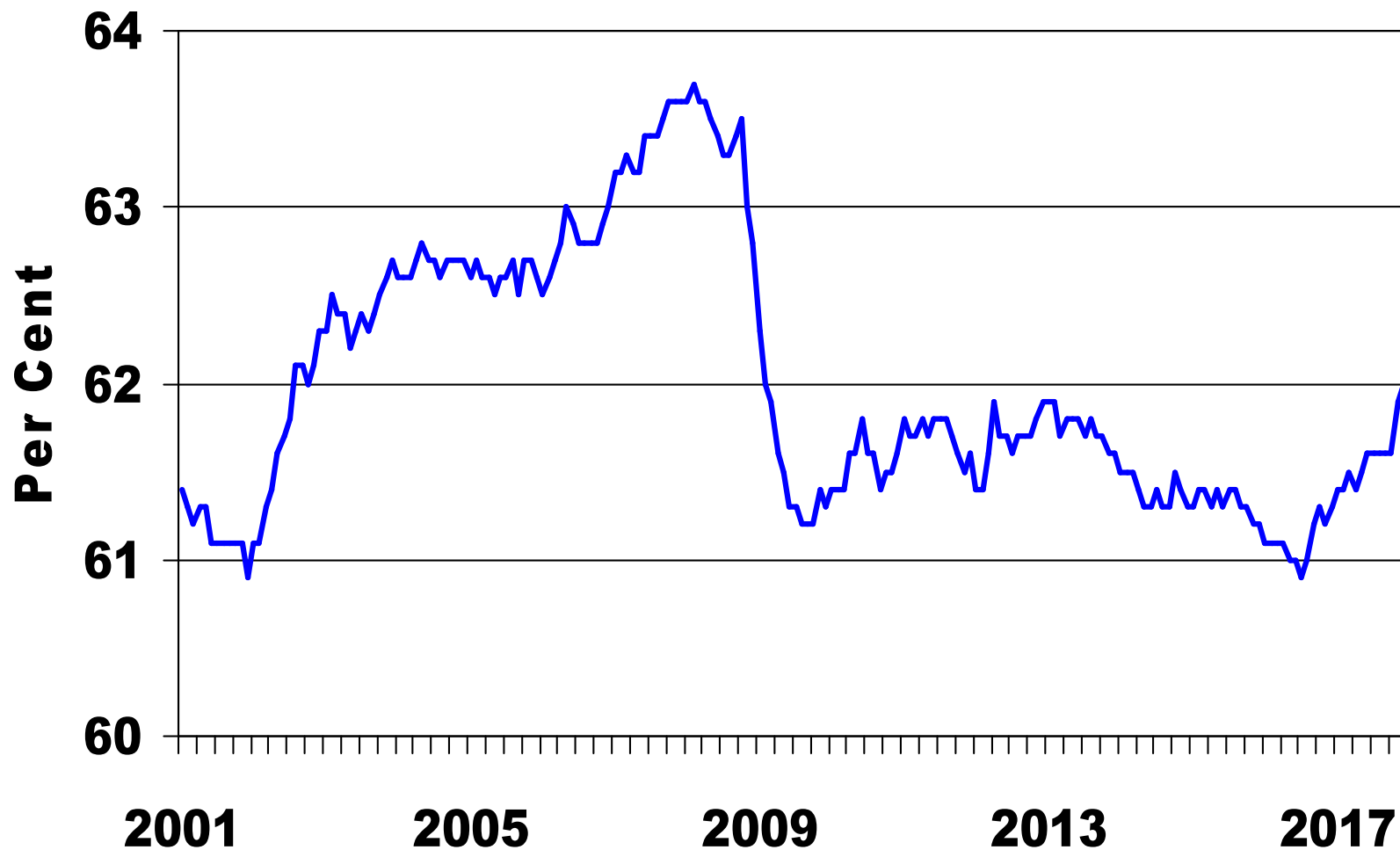
Source: Statistics Canada

# Monthly Job Growth in Canada



Source: Statistics Canada

# Employment Rate in Canada



Source: Statistics Canada

# “Macroprudential Mortgage Regulation”

- Seems to be influenced by heat in Toronto and Vancouver
- Data shows stronger growth of prices, sales volumes, and mortgage debt
- “Rest of Canada” wonders why it should be included
- Toronto and Vancouver residents believe they are responsibly acting in their best interests
  - Demand suppression used to address a problem with supply
  - So much for supporting the middle class
  - Preventing movement to home ownership hurts renters

# The “Stress Test”

- Mortgage insurance – 5 year posted
- OSFI proposal – Posted or Contract + 2 points
- Which interest rate to use?
  - Testing today for impact in the future.
  - Neglects principal repayment and income growth
  - 2 point rise 5 years in the future can be simulated today with a 0.75 point premium.
- Use of excessive interest rate, on top of higher interest rates, could reduce Canadian housing activity by 12-15% (80,000-100,000 per year) and cost up to 150,000 jobs.