Housing Market Digest

Canada, October 2021

Inadequate housing supplies across the country are constraining sales, and data for September hints at further strong price growth.

Owning versus Renting

Royal LePage has published my report comparing the costs of owning versus renting. You can find the press release on this page, and then drill down into the summary and then the full report. https://www.royallepage.ca/en/realestate/about-us/media-room/

I was excited by the media coverage, including these two articles: https://www.thestar.com/news/gta/2021/09/30/is-it-better-to-buy-or-rent-in-91-per-cent-of-cases-buying-a-home-is-more-beneficial-says-a-new-study.html

https://financialpost.com/real-estate/mortgages/how-a-little-mortgage-math-helps-swing-the-own-rent-debate-in-favour-of-buying-a-house

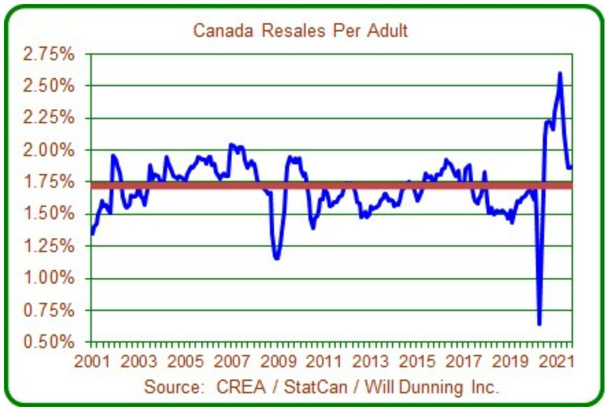
I was hoping to see more discussion of the implications for government policies (the last four pages in the report):

- People who buy homes are working hard to make decisions that are in their best interests.
- During the past 13 years, a series of changes to federal mortgage policies has made it harder for Canadians to make housing choices that they see as their best interests.
- Those policies have made the housing market problems worse (in addition to being a barrier to ownership, they are one of the factors that have suppressed the supply of new housing).
- Two big problems that policies can and should address are (1) the large amounts of forced saving that are required each month by mortgage amortization and (2) the increased size of required down payments.
- We need to have a national discussion on those two issues.
- Plus, I still think it's ridiculous and harmful to use a rate of 5.25% in the stress tests.
- The tests ignore income growth that will occur by the time of the future mortgage renewal.

In response to some comments I've seen, I made more calculations of renting versus buying, in the Addendum that can be found on this page: https://www.wdunning.com/recent-reports

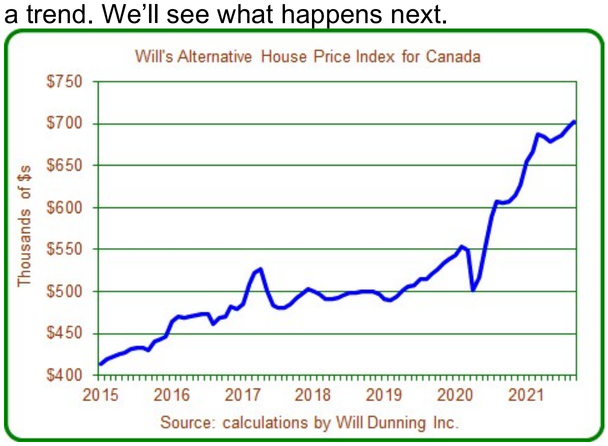
Resale Markets

The sales rate was essentially unchanged in September, at an annualized rate was 587,400. On a population-adjusted basis, September sales were 9% above the long-term average (which I estimate as 540,000). Exceptional sales this year are due to a combination of low interest rates and the quite healthy employment situation, as well as on-going adjustments of housing choices in the wake of Covid-19.



Sales continue to be less than they could be, because there are inadequate flows of new listings into the market and the volumes of active listings within local markets are extremely low. CREA calculates that the average months of inventory (2.1 months as of September) is far below the long-term average (5.0).

My alternative price index (a constant-weight average of the provincial average prices) had been roughly flat since March, but then jumped by 1.3% in September from August. One month is not a trend. We'll see what happens next.



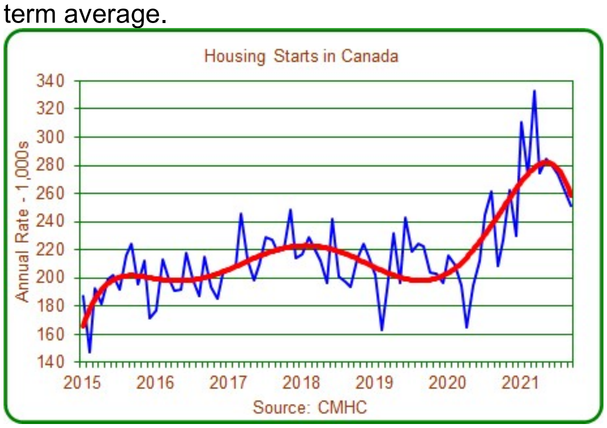
Employment

Statistics Canada estimates that employment grew by 157,000 in September. Estimated employment has now returned to the February 2020 level.

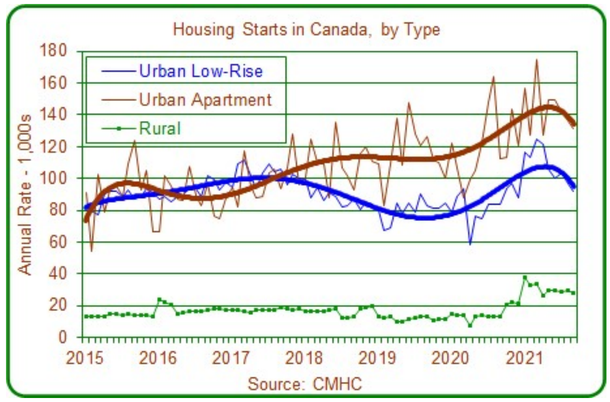
The employment rate (the share of people who have jobs) for the “prime working age” (and prime home buying) age bracket of 25 to 54 is now (83% in September) only slightly below the record that was seen two years ago, but otherwise is very high in historic terms. This is highly favourable for housing demand, especially for home buying.

Housing Starts

Housing starts continue to retreat from the peak that was seen early this year. The rate for September (251,200) is still well above the long-term average.

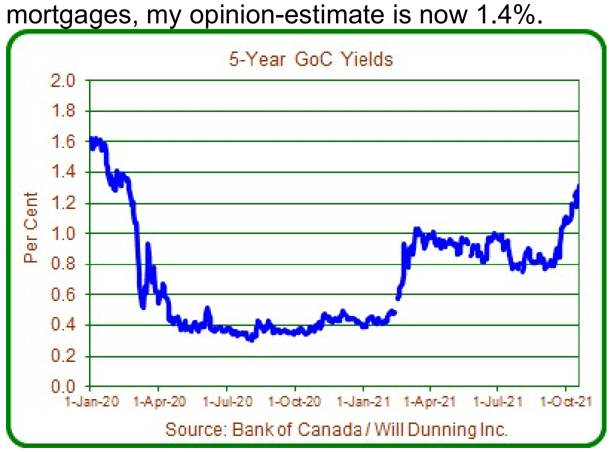


The slowdown is occurring for both apartments and low-rise dwellings. Low-rise activity is far below requirements, while apartment starts are above required levels. I continue to see a risk that high volumes of apartment completions in the coming years might result in disappointment for investors (more vacancies, with soft rents and pricing). Meanwhile, low-rise markets will remain pressurized.



Interest Rates

Bond yields have increased sharply during the past month. Today (Oct. 18), the 5-year GoC yield of 1.3% is a bit higher than I think it should be (1.25%). My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (advertised by major lenders) has increased slightly, to 2.3%. Unless bond yields reverse direction, mortgage rates will soon increase. If that happens, there will be more urgency in the housing market, as people take advantage of pre-approvals at older rates. For variable rate mortgages, my opinion-estimate is now 1.4%.



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