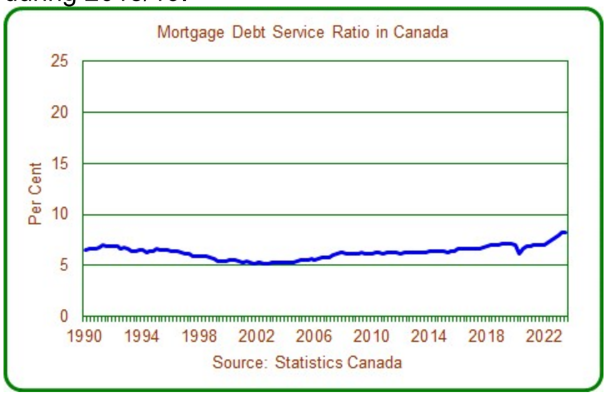
Housing Market Digest

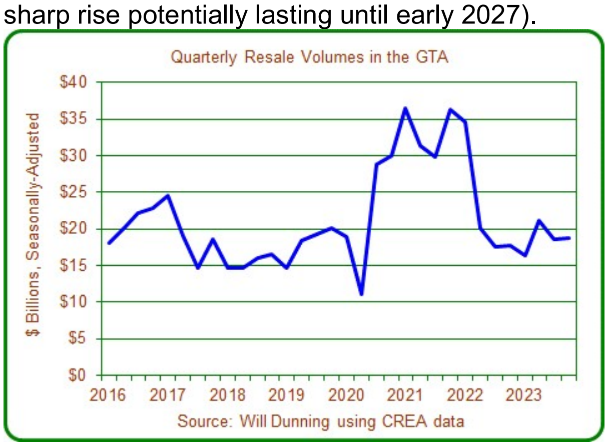
Greater Toronto Area, January 2024

Repayment Shock Has Barely Started

So far, we are seeing very little impact on the employment situation from higher interest rates. While mortgages are being renewed at sharply higher interest rates, the aggregated amount of payment increases has not been very large: Statistics Canada estimates suggest that total mortgage payments by households increased starting in the second half of 2022 and into 2023, but not by as much as we might expect. As of 2023-Q3, the estimated mortgage debt service ratio was 8.3%, versus slightly more than 7% during 2018/19.



Most of the at-risk mortgages renewed last year were initiated during 2018. At that time, the volume of home sales was moderate, which resulted in a moderate volume of new mortgage lending and limited renewals during 2023. It wasn't until the second half of 2020 that a combination of very strong sales in unit terms plus sharp price rises resulted in a doubling of the dollar volume of sales (this chart shows the data for the GTA, the volume for Canada also doubled). During the next year and a half, we might see a further gradual rise in the debt service ratio. But then, depending on what happens to interest rates, there is potential for the debt service ratio to rise more sharply during the second half of 2025 (with that sharp rise potentially lasting until early 2027).



I'm not expressing any opinion here on what will happen to interest rates during the coming three years. But, I am saying that unless there is a substantial reduction in interest rates, mortgage renewals will have small (but cumulating) negative consequences for the economy. A year and a half from now, there is potential for a more rapid accumulation of downward pressure on the economy.

I've said elsewhere that the Bank of Canada's interest rate policies have the potential to affect the outcome of the next federal election (expected for 2026).

Interest Rates

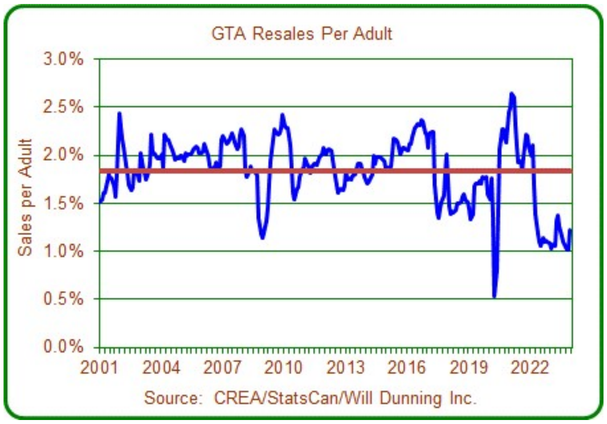
Bond yields were relatively flat during the past month (apart from a jump during the 16th-18th). Combining that jump with a small reduction for my opinion-estimate of 5-year fixed mortgage interest rates (to 5.4%), the mortgage-bond is about right (for the moment). If current bond yields persist, I don't expect much change in mortgage rates. The neutral mortgage interest rate is about 3%.

Resale Market

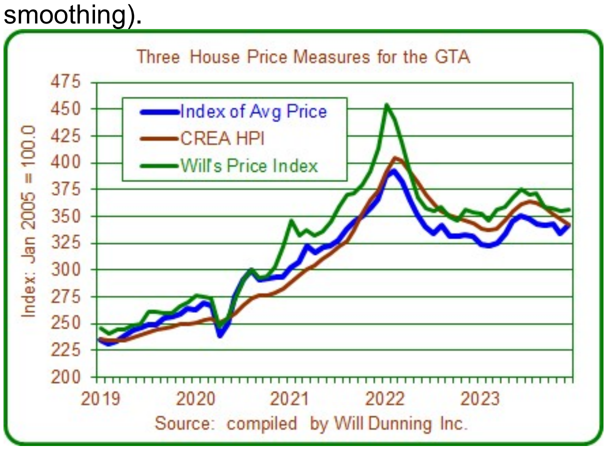
Market indicators were less-bad during December: the annualized sales rate for the GTA rose to 72,600 versus 59,900 in November and the sales-to-new-listings ratio rose to 53% (similar to the 52% threshold for a balanced market).

However, data for Decembers can be affected by variations in the weather, and this year the weather was quite mild and therefore likely gave the market a bit of help.

On a population-adjusted basis, December sales were still far (34%) below the long-term average.

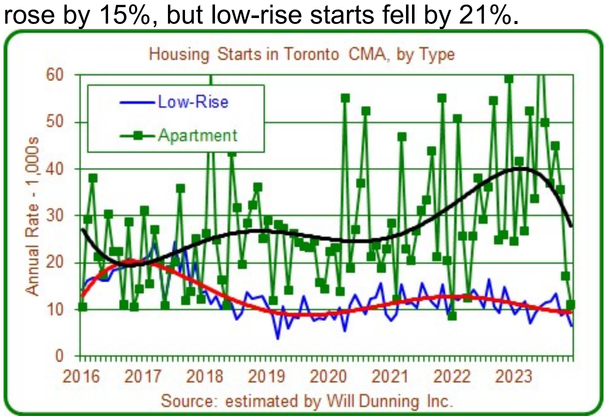


Two out of three price measures showed small rises for the month (although the CREA index fell during the month – that data is affected by smoothing).



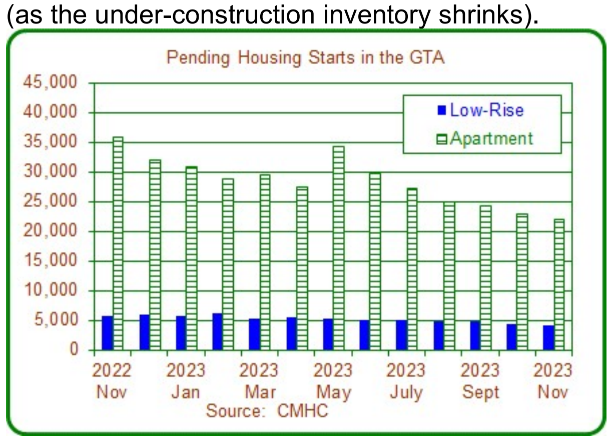
Housing Starts

For the second month, Toronto CMA starts were weak, at an annualized rate of just 17,600 in December. Starts fell for both low-rises (6,600) and apartments (11,000). For the year, total starts for the CMA increased by 5%: apartment activity rose by 15%, but low-rise starts fell by 21%.



I'm still not prepared to call this a turning point, and I view the recent data as (mostly) statistical noise.

For the Toronto area, CMHC produces some useful, (but under-appreciated) data, on pending starts (building permits have been issued, but a start has not been recorded). The data can be found here:
https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/housing-market-data/housing-market-tables-selected-south-central-ontario
This data shows that there has been some erosion of that inventory during the past year, but it is still sizable. Moreover, new approvals of building permits continue to replenish the pending supply. Starts might remain close to prior trend levels for a while (perhaps another half year), but I still believe that there will eventually be a downturn, which will be followed by gradual losses of construction jobs (as the under-construction inventory shrinks).



Employment

According to Statistics Canada estimates, for the Toronto CMA, the adult population grew by 232,800 during 2023 (4.3%), whereas employment grew at a slower rate (107,100, or 3.0%). I don't have confidence in this data (as I discuss in the Canada edition).

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