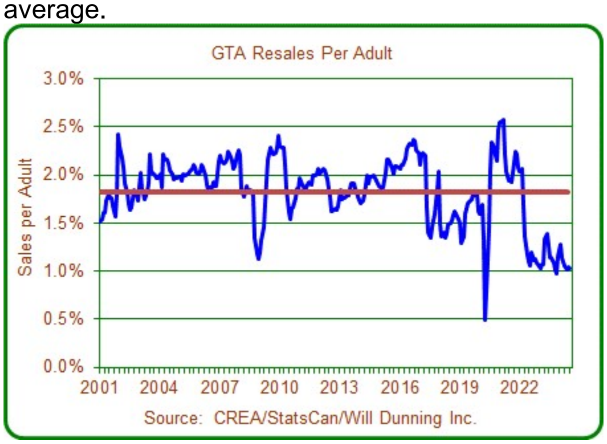
Housing Market Digest

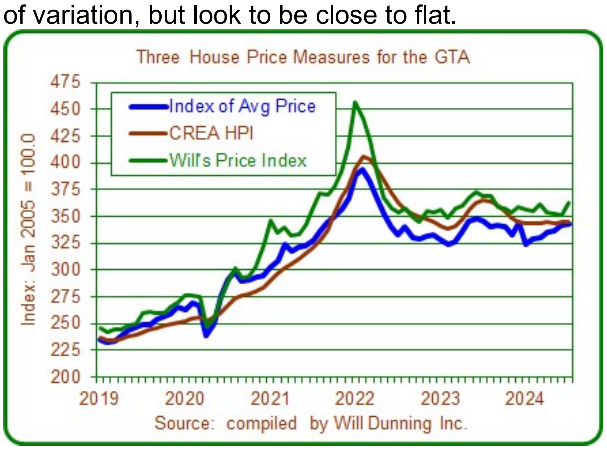
Greater Toronto Area, August 2024

Resale Market

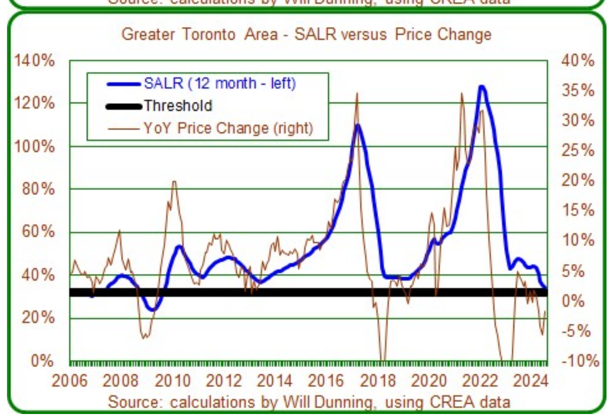
The GTA housing market is quite boring. Once again, there was little change in the sales rate for July (a tiny drop, to an annualized rate of 62,600). On a population-adjusted basis, sales remain extremely weak, at 44% below the long-term average.



Price measures are also showing small amounts of variation, but look to be close to flat.



The most interesting part of the story is that the balance in the market has shifted. Historically, the GTA is almost always a "sellers' market" – there are usually too few listings (measured either as flows of new listings into the market or inventories of active listings). At present, the ratio of sales-to-new-listings (first chart below), clearly indicates a "buyers' market" (the current ratio is 36% and during the past year it has averaged 42%, versus the 52% threshold for balance). The other measure, the sales-to-active-listings ratio (second chart) has become ambiguous. For July, it is now 28%, which is slightly below the balanced market threshold of 32%. But, the 12-month average is above the threshold, at 37%. Statistically, the new listings ratio does a better job of explaining and predicting price movements. But, active listings could become more important: if (1) more owners decide that they have to sell due to increased mortgage costs and/or changes in employment or income (2) the inventory of unsold homes continues to rise, and (3) selling periods continue to lengthen. Downward price pressure could develop late this year. This is just one scenario, of course. Another is that interest rates could fall quickly enough to prevent a sharp downturn. Given that we need rates to fall by at least another full point, I consider this alternative unlikely.

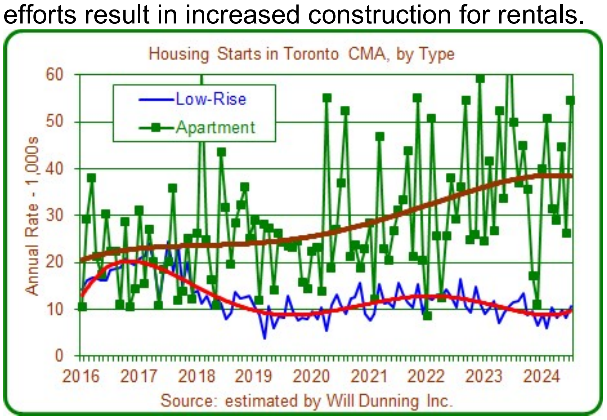


New Housing Construction

In this line of work, I'm expected to make forward-looking statements. I don't like doing that, because I know that I will always be wrong. Sometimes, I'm close enough. Should I celebrate those (rare) occasions? Today, I will. Last month, I commented that "the downtrend for apartment starts could be further delayed".

For July, there was a rebound in the rate for starts, to an annualized rate of 65,000. (However, during the past six months, the average has been just 48,200.) The rise in July, was due to apartments, to 54,500 (the average is 39,400 over the last six months). Low-rise starts remain extremely weak, at 10,500 for July (only 8,800 over the last six months).

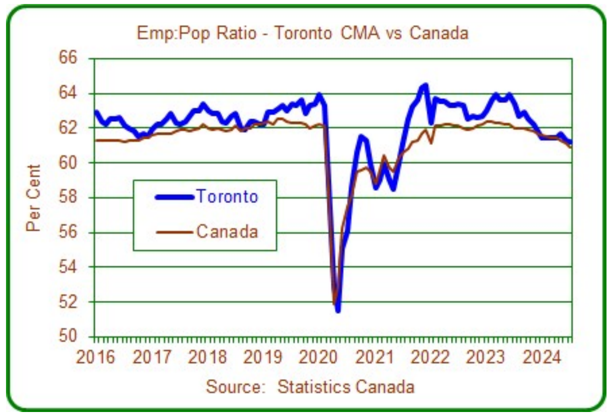
I continue to expect that apartment starts will turn down, eventually, as monthly reports from BILD and the Altus Group (as well as the quarterly data from Urbanation) show very weak sales. There might be a partial offset if the federal government's efforts result in increased construction for rentals.



For now, residential construction is a positive factor in the GTA economy. As I've commented many times, this largely reflects decisions that were made when interest rates were at extremely low levels. I continue to expect that construction will very gradually become a negative factor for the local employment situation, which will be additional to the negative weight of housing costs.

Employment

Toronto usually has a stronger employment situation compared to all of Canada (which is an important factor that causes people to move into this very expensive community). While there is uncertainty about the accuracy of the data (I discuss this at more length in the Canada edition), it does appear that this economic advantage is dissipating. This makes sense, since higher mortgage interest costs are going to hit much harder here than in most other areas of Canada, and therefore consumer spending will be more affected here.



The Rental Market Outlook

A key factor in current market conditions is the extremely rapid rate of population growth that has resulted from in-migration to Canada. For the year up to July 1 2023, Statistics Canada estimates that the Toronto CMA population grew by 220,000 (for the 10 years up to 2019, the average was 84,000).

While the federal government is signaling that it will sharply lower issuance of new temporary residence permits, there is uncertainty about the timing and magnitude of impacts. I think the best case scenario is that population growth will slow during the next two years, to less than 100,000 in 2026. Considering that housing completions will be at an above-average rate, it is possible that the Toronto vacancy rate won't fall further. But, at 1.5%, the market will still be tight enough to result in rent increases that remain well above the rates of overall inflation and income growth (for the Toronto CMA, the balanced market vacancy rate might now be in the range of 2.5-3%).

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