Housing Market Digest

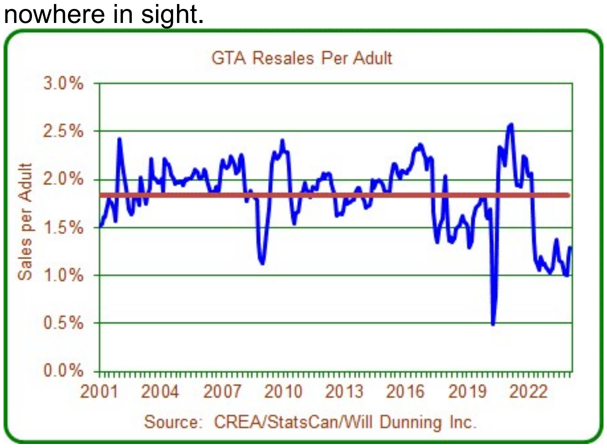
Greater Toronto Area, February 2024

Interest Rates

Bond yields reversed direction during the past month, with the yield for 5-year Government of Canada's up by about a half point. I discuss interest rates in more detail in the Canada edition. The key message is that current mortgage rates are still very far above the 3% neutral rate, creating a great deal of risk to housing market, the broader economy, and the financial system for the coming 2-plus years.

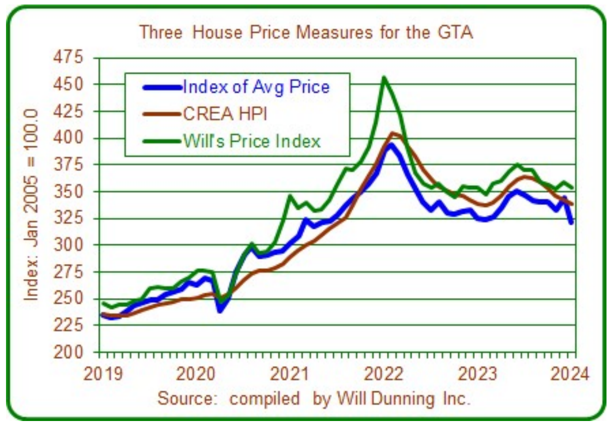
Resale Market

Sales increased again during January, to an annualized rate of 77,400. This is still very weak in historic terms - far (29%) below the long-term population-adjusted average (which is now 109,700). Since late November, there has been a drop in the 5-year fixed interest rate of three-quarters of a point. This encouraged buyers, and the weather was favourable. Affordability remains dreadful, and a return to a healthy market is nowhere in sight.

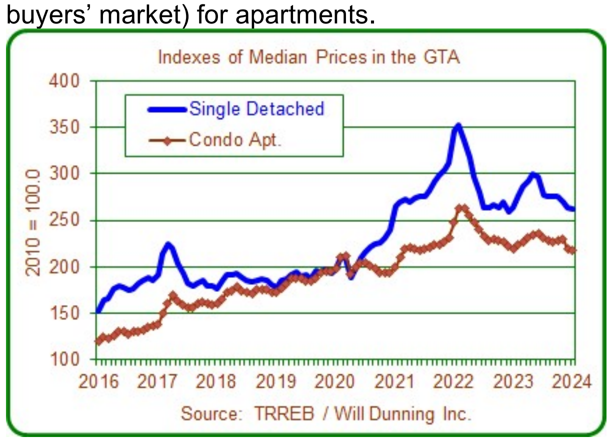


Inventories are still constrained (both new listings entering the market and active listings). We aren't yet seeing a substantial volume of involuntary listings (especially for low-rises, but as I discuss below, the situation may be different for apartments). And, very few current owners are interested in moving voluntarily at present. The sales-to-new-listings ratio (54% in January) is close to the balanced market threshold of 52%. The active listings ratio jumped during the month to 50% (far above the 32% threshold for a balanced market).

The average selling price dropped in January, but this is largely due to a change in the mix (a large jump in the share for condo apartments and a drop in the share for single-detached homes). My alternative price index (which controls for the mix) shows a smaller movement.



Prices for single-detached homes and condo apartments often move in broadly similar ways (including the past three years). For this year, I see more risk for apartments than for singles – and the recent data hints that this might be starting to develop. I calculate that during January, the sales-to-active-listings ratio was in the low-30s for apartments but in the mid-60s for low-rise homes. During the past 6 months, the averages have been 38% (a sellers' market) for low-rises but 24% (a buyers' market) for apartments.

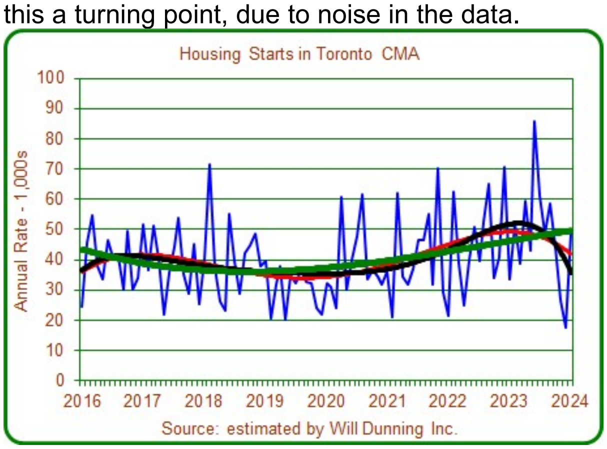


The greater risk for apartments is because they are likely to see more involuntary sales. In normal times, there is a small share of newly-completed condos that are sold voluntarily (people who have seen a change in life-circumstances and housing preferences since they signed a purchase agreement 3+ years ago, or by people who were speculating on price growth during the construction period and never intended to close). In addition to that supply of listings, we are likely to see a rise in involuntary sales for condo apartments this year. Higher interest rates are now causing difficulties on closing. There will be a lot of condo completions during each of the coming three years (exceeding 25,000 each year). As well, large increases in occupancy costs will drive increased listings from current owners (sharp rises in mortgage costs at renewal, plus common charges and taxes).

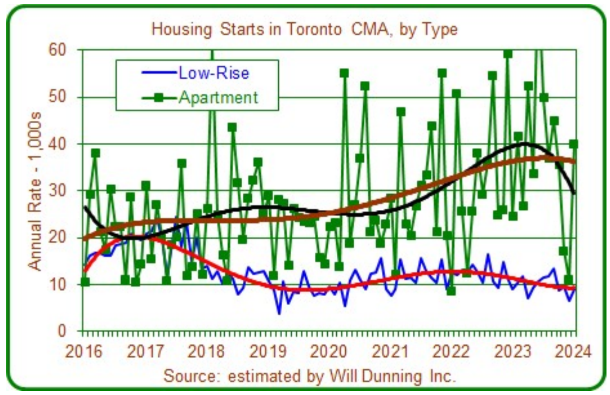
Similar pressures exist for low-rise homes, but because there will be few low-rise completions this year (about 10,000), there will be fewer involuntary sales than for apartments.

Housing Starts

Housing starts in the Toronto CMA partially rebounded in January, to an annualized rate of 49,000. In terms of the trend, there is uncertainty: due to high volatility in this data, it isn't clear what the true situation is. To be nerdy: the shape of the trend line depends on choices made by the analyst. In this version of the chart, the green trend line, which shows a continued rise in the trend, is a "3rd order polynomial". The red trend line, showing the start of a downturn, is "4th order". The sharper drop for the black line is based on a "6th order"). In short, I'm still not prepared to call this a turning point, due to noise in the data.

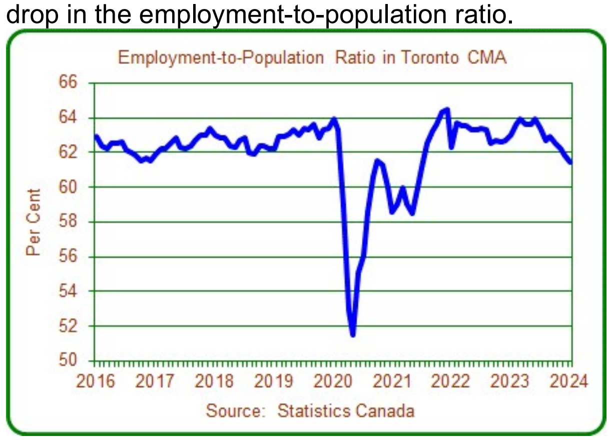


The ambiguity is greatest for apartments. The brown trend line ("4th order") shows starts at a peak, but the black line ("5th order") shows a sharp downturn. Low-rise activity is much easier to interpret, as starts are unambiguously very weak (as they have been for a long time).



Employment

Statistics Canada estimates for the Toronto CMA show a weakening of the employment situation (the estimated population is increasing very rapidly, but estimated employment is flat or falling). As I have commented many times, I don't have confidence in this data. But, there is one big event that is making the data at least partially correct: a lot of the current growth in population is young adults from other countries who are here on student visas (some but not all of them also have jobs). To some extent, this is contributing to a real drop in the employment-to-population ratio.



How to Reach Will Dunning Inc.

Email:	wdunning1955@gmail.com
Web site:	www.wdunning.com
Twitter:	@LooseCannonEcon

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