Housing Market Digest

Greater Toronto Area, December 2020

Synopsis: extremely low interest rates, combined with our Covid-induced evaluation of our housing situations, might support strong sales for some time.

What's Next?

Statistics Canada estimates that Toronto CMA has regained 87% of the job losses that happened during February to May. November's employment estimate is 83,000 (2.3%) lower than in February. For Canada, the shortfall is a bit worse (3.0%). While employment is still below the prior peak, it is higher than in 2018. Combined with record low interest rates, this is positive for home buying.

With Covid-19 accelerating, there is uncertainty about whether there will be further negative economic effects. Ominously, the Toronto employment data for November failed to show further improvement (although I am always skeptical about this data in the short-term).

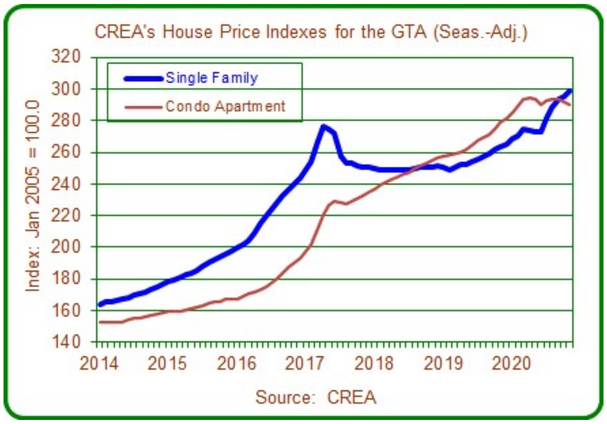
Resale Market

Sales in the GTA have tapered, but the annual rate of 110,500 for November is still quite strong.

The population-adjusted sales rate for November is just slightly above the long-term average. For the entire Covid-19 period (since April), the average sales rate is 91,000, which is 14% below the long-term population-adjusted average. (For all of Canada, the population-adjusted sales rate for April to November is stronger, at 2% above the long-term average.)

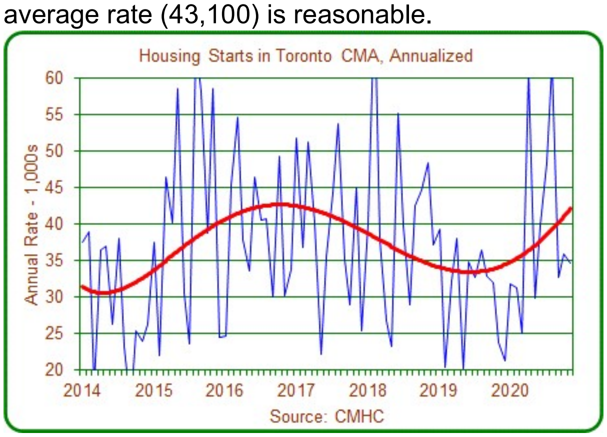
There aren't enough new listings entering the market, with the result that the sales-to-new-listings ratio (62% in November, and on average over the past 12 months) is well above the balanced market threshold of 53%.

Consequently, prices are growing very quickly. During the past five months, CREA's price index for the GTA has jumped by 6.1%, which equates to an annualized growth rate of 16%. Single-detached pricing is extreme (up by 9.4% during the past five months) while condo apartments are essentially flat.



Housing Starts

Housing starts (for the Toronto Census Metropolitan Area) were at an annualized rate of 34,600 in November. For April to November, the average rate (43,100) is reasonable.

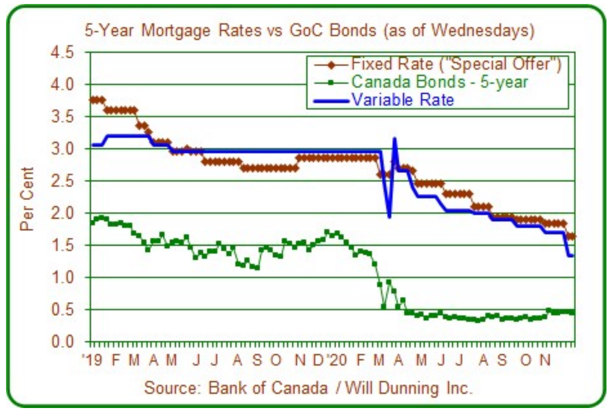


The detailed data shows that starts of low-rise homes are improving, but the average since April (just 11,250) remains far below the minimum requirement of 20,000. Apartment starts remain very strong (averaging 31,800 for April to November). As I've commented repeatedly, we will see continued oversupply of condos and shortages for low-rise homes for some time.

Interest Rates

Bond yields have shown only very small movements during the past month, and the yield for 5-year Government of Canada bonds is in the area of 0.45%. But, increased competition among lenders has resulted in some drops in mortgage interest rates.

My opinion-estimate of a typical "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65%. Prior to this year, the previous record low was 2.5% during the summer of 2016. The spread between 5-year fixed rate mortgages versus bonds has shrunk to just 1.2 points, far below the long-term average of 1.8 points. For variable rates, my opinion estimate is now 1.35%. The mortgage stress tests still use a ridiculous rate of 4.79%.



Other News

One of the most interesting topics in the GTA housing market is what's happening in the downtown apartment sector (both condo and rental) and what might happen during the coming year. I'd say the key issue is what percentage of office workers will return to the offices. I don't have an opinion on that and I couldn't find any well-articulated opinions, so I tried a little survey (via my Twitter). Here are the results:
https://twitter.com/LooseCannonEcon/status/1337785175745441792
Sadly, not many people took part. The average opinion is that just over 80% will return. If this happens, and with a lot of new supply entering the market, I think it could result in quite a weak market for downtown resales and rentals of apartments during the coming year.

I'm looking forward to seeing you again.

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