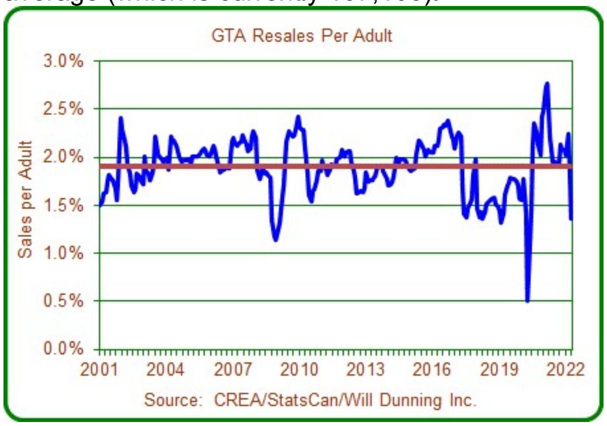
Housing Market Digest

Greater Toronto Area, May 2022

Resale Market

The Toronto housing market (and surrounding move-to communities) is now in a very rapid transition. Sharply higher interest rates and elevated uncertainty have pushed a lot of potential buyers out of the market. For April, the annualized sales rate was just 76,400. On a population-adjusted basis, this is 29% below the long-term average (which is currently 107,100).



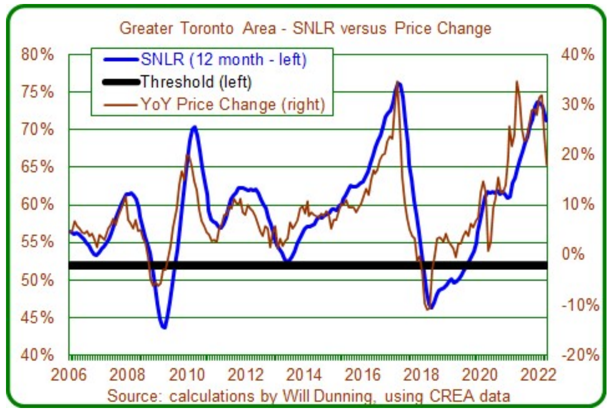
Activity is considerably stronger for all of Canada. April sales were essentially equal to the long-term population-adjusted average. In all of the provinces other than Ontario, the April sales rates were above the long-term population-adjusted averages.

The balance in the market has also shifted rapidly. Most of the time, the GTA is a “sellers’ market”, with too few listings relative to the number of potential buyers.

The flow of listings into the market is still below average, but with the drop in sales during the past two months, the sales-to-new-listings ratio has downshifted, to just 45% in April. This is well below the threshold for a balanced market, which I now calculate as 52%.

In the analysis of pricing, I look at the SNLR for 12-month periods. Although the monthly figure for April is just 45%, the 12-month average is still high (71%), as is shown in the next chart. But, this figure is now beginning to fall and is highly likely to change rapidly during the coming months. Similarly, the year-over-year price changes are likely also going to change rapidly. (In this analysis, for the GTA I am calculating price changes using my alternative price index.

There is more discussion about the concept and calculation of balanced market thresholds in my new report, starting at Page 22. The report is the first item on this page:
https://www.wdunning.com/recent-reports

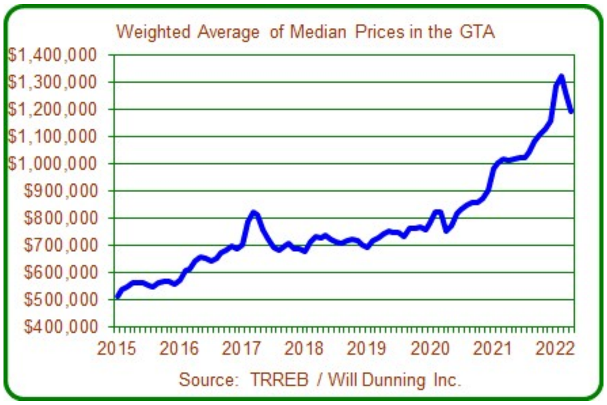


The coming months will be chaotic in the housing market, which will be damaging to the broader economy (not just here, but across Canada, and in the US).

As I’ve discussed recently (and in more detail in the Canada edition of the May HMD) I believe that interest rates have overshot where they should be. Rising interest rates will result in substantially higher housing costs for the minority of people who renew mortgages. More importantly, if there are substantial drops in home values (or fears of this) confidence will be affected and consumer spending is highly likely to weaken.

I see a chance (but not a certainty) that interest rates will retreat later this year.

As I said last month, in times like these the price data will be ambiguous: averages are distorted by changes in composition; indexes can be slow to reflect turning points. One of my alternative measures of prices is shown in the next chart. This data shows that prices dropped by 10% during the past two months, but are still up by 18% year-over-year.

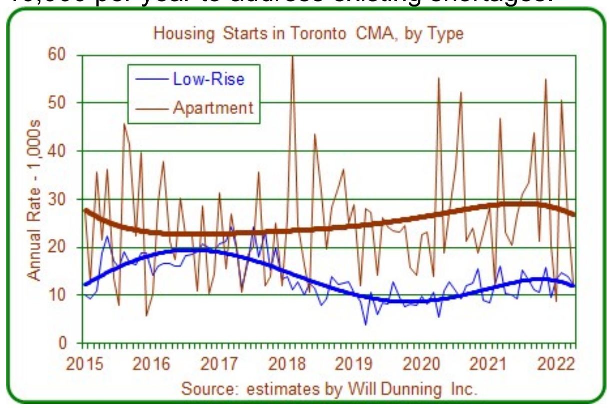


The inventory of “active listings” in the housing market has recently been exceptionally low, as most new listings were sold very rapidly. This data has started to turn, and I expect a rapid rise during the next few months. At this moment, the supply of active listings is still below average in historic terms (and throughout history, the market has been under-supplied most of the time).

This brings me to another point from my new report: there are variations in market conditions in the short-term, but in the long-term what really matters is the total amount of housing that exists versus the total amount that is required by our growing population. Regardless of what happens during the coming months, the problem of inadequate housing supply is not going away (it’s probably going to get worse, because…).

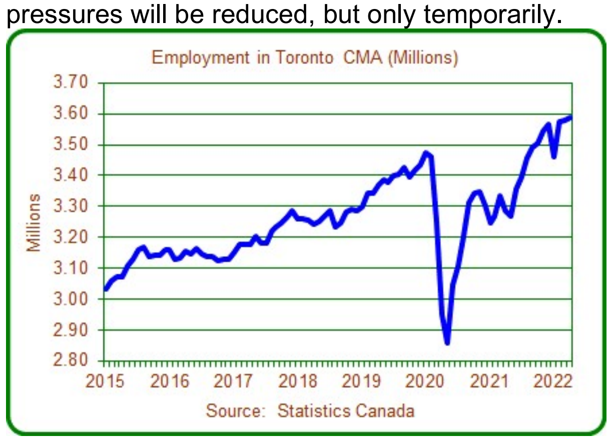
Housing Starts

… because higher interest rates can be expected to reduce pre-construction sales of new homes. It takes time for sales to translate into housing starts. Starts of low-rise homes (singles, semis, and towns) are probably going to slow during 2023, from levels that were already far too low. The construction effects for apartments will take even longer to materialize. My demographic model indicates that we need about 33,000 low-rise starts per year just to keep up with population growth, and there is a further increment of at least 10,000 per year to address existing shortages.



Employment

The employment situation remains very healthy, now 3.6% higher than it was pre-Covid. Also, the share of the population that is employed remains at a high level (the highest level of the past decade). This is positive for housing demand, but lack of housing opportunities has resulted in intense pressures in the housing market. If we are entering a recessionary period, those housing pressures will be reduced, but only temporarily.



How to Reach Will Dunning Inc.

Email: wdunning@sympatico.ca
Web site: www.wdunning.com
Twitter: @LooseCannonEcon

Disclaimer of Liability