Housing Market Digest

Greater Toronto Area, November 2021

Rising interest rates are adding urgency to the market, but lack of supply is still constraining sales and driving price acceleration.

Are We Worrying About Inflation?

StatsCan reported today that the national inflation rate was 4.7% (year-over-year) as of October.

Their website also provides a cool Personal Inflation Calculator:
https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020cal-eng.htm
From it, I discovered that my personal inflation rate is about 2 points higher than the average, but that's because of the rapid rise in the replacement value of my Toronto house. My "experienced" personal inflation rate is actually a lot lower.

I accept that current inflation is temporary, and I think it's quite likely that a year from now the inflation rate will be in the area of 2-2.5%.

But, I am anxious that very low interest rates are still contributing to asset inflation (housing and financial assets), and that's why the Bank of Canada should have started to raise interest rates during the spring: the longer that asset prices are over-inflated, the more they become part of our expectations, and the greater the economic damage will be if/when those asset values correct.

Resale Markets

The GTA sales rate jumped in October (to an annualized rate of 116,600, based on 9,783 actual sales). This is 10% above the population-adjusted long-term average (106,100).

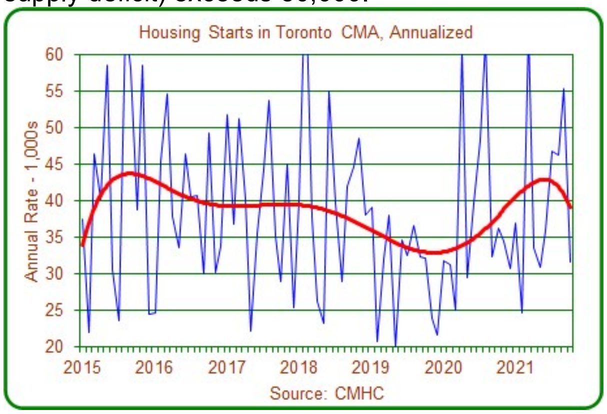
But, for the entire period since the start of 2018, the sales rate is the GTA is 7.6% below the long-term population-adjusted average. For all of Canada, actual sales for that period are almost exactly equal to the long-term average. Sales in the GTA have been constrained by the mortgage stress tests as well as the inadequacy of supply.

Active listings at the end of October were 55% below the 10-year average. Flows of new listings into the market are moderate (currently 15% below average), but then most new listings sell within a few days (in my neighbourhood, there are currently two houses in the market). The sales-to-new-listings ratio is high (82% in October and a 72% average for the past 12 months), far above the balanced market threshold for the GTA, which I estimate as 53%.

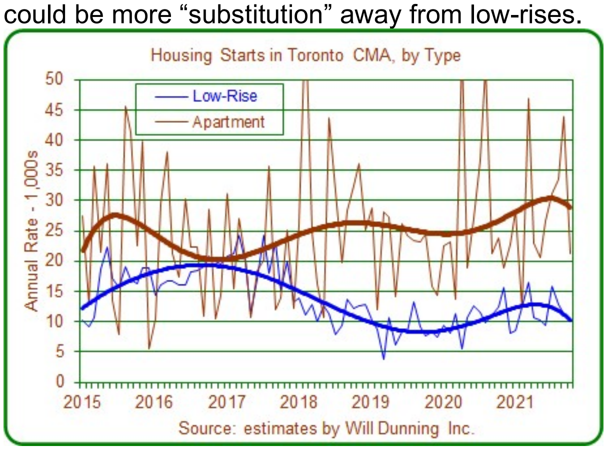
My alternative measures of price growth for Toronto indicates that price growth has resumed for single-detached homes during the last three months, while condominium pricing has shown less change. This discrepancy is partly due to the shift of consumer preferences in the wake of Covid, but also because there has been so much new supply of apartments. Construction of low-rise housing has been inadequate for two decades. Since February last year, the median price is up by an annualized rate of 23% for single-detached homes but just 4% for apartments.

Housing Starts

It's impossible to insert a reliable trend line to the extremely volatile data for housing starts in the Toronto CMA. That said, the data hints that new starts are slowing. The trend might be about 40,000, but the requirement (to meet the needs of a growing population and to reduce the existing supply deficit) exceeds 50,000.



As I (and many others) have commented, there is a further complication, that the mix of dwelling types is wrong. The trend for apartments is in the area of 30,000. I think the requirement (even allowing for people who are willing to change their preferences and accept a rental or owned apartment rather than a low-rise) is below 25,000. Meanwhile the trend for low-rise starts is around 10,000, but the requirement exceeds 20,000 (with a need for more than that to reduce existing shortages). If we were building more family-friendly apartments (2 and 3 bedrooms, with appropriate indoor and outdoor amenities) there could be more "substitution" away from low-rises.

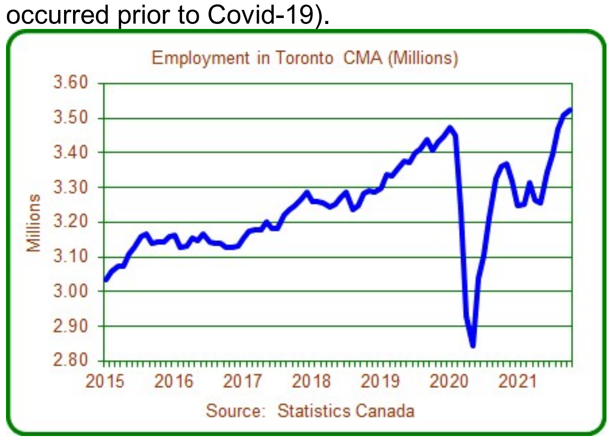


Interest Rates

Bond yields have increased sharply during the past two months, and now exceed 1.5%. My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) is now 2.7%. For variable rate mortgages, my opinion-estimate is 1.40%. There is more discussion of interest rates in the Canada edition of HMD.

Employment

As of October, Statistics Canada estimates that employment in Toronto CMA is now 2.1% above the February 2020 level. This will create more interest in home buying (on top of the demand that is already resulting from the robust job growth that occurred prior to Covid-19).



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