Housing Market Digest

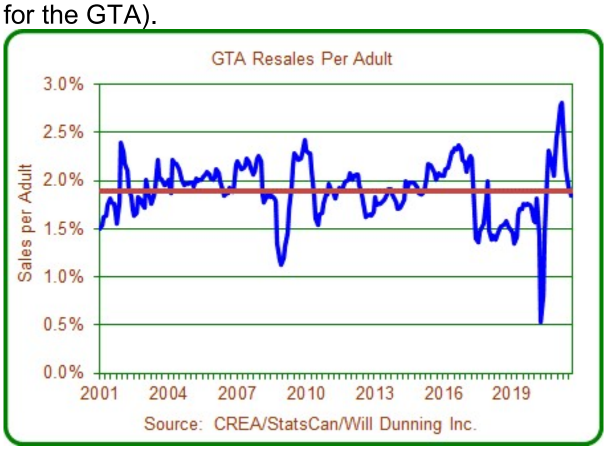
Greater Toronto Area, September 2021

In the Canada edition of HMD, there is a short diatribe on government-imposed costs on new housing, the consequences, and what I think needs to be done.
On September 8th, I released a report that compares the costs of owning versus renting. The first item on this page: https://www.wdunning.com/recent-reports

Resale Markets

Sales activity slowed further in August, to an annualized rate of 102,900 (based on 8,596 actual sales). This is now below the population-adjusted long-term average, which I calculate as 105,700.

By this measure, the GTA has been weaker than for all of Canada for some time (for August, the sales rate for Canada was 8% above the population-adjusted average, versus a 3% deficit for the GTA).

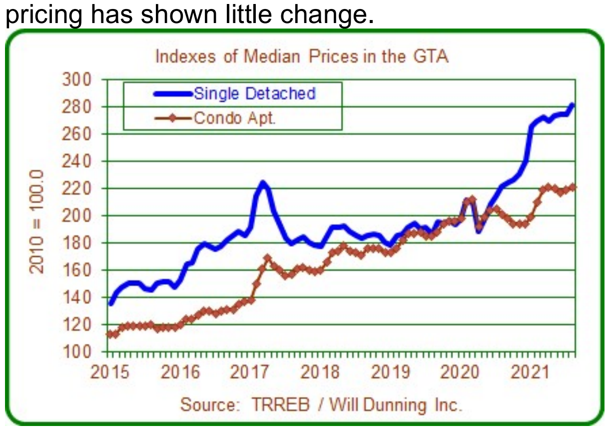


The slowdown during the past few months is partly due to price resistance and deterioration of affordability, from highly favourable levels a few months ago, to a situation that is now a bit worse than normal.

But, the most important factor has been a severe lack of supply. Flows of new listings into the market are only moderate, and most new listings sell almost instantly, unless they are over-priced or have some other serious defect. Consequently, the inventory of active listings on the market is only about one-half of a normal level, and a lot of those listings are defective. As I've been saying for some time, if there was more supply, there'd be more sales.

The sales-to-new-listings ratio remains quite high (70% in August and the average is the same for the past 12 months). This is far above the balanced market threshold for the GTA, which I estimate as 53%. Price growth has moderated recently only because buyers have become a lot more resistant to high prices.

My alternative measures of price growth for Toronto hint that there has possibly been a small amount of growth for single-detached homes during the past few months, while condominium pricing has shown little change.

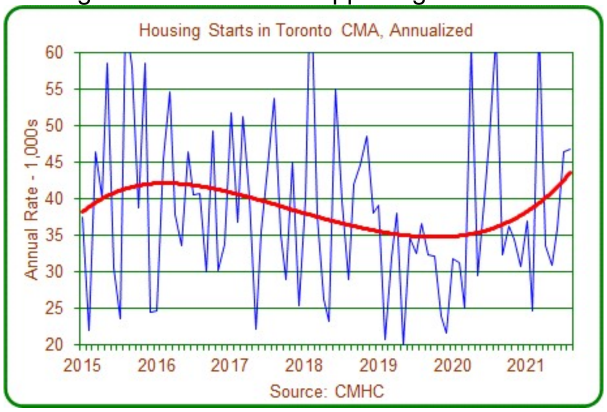


As I've commented previously, here are some major factors that I think will be positive overall for sales this fall and into next spring:

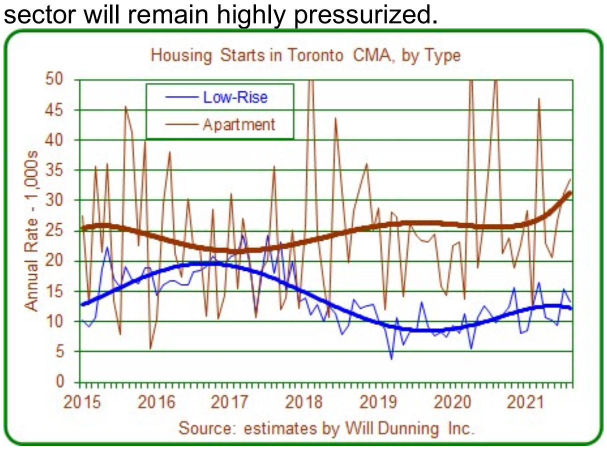
- Affordability in the GTA has transitioned rapidly from being much better than average to being slightly worse than average – this largely explains the slowdown seen this year.
- On the other hand, changing working arrangements will result in sustained interest in changing living arrangements.
- The level of employment has increased sharply compared to 3-5 years ago, which means that a lot of people have been getting ready to buy.
- But, this all depends on supply.

Housing Starts

Housing starts have been relatively strong during the past year and a half (including an annualized rate of 46,800 for August). As this housing is completed, it will partially reduce the overall supply shortfall that currently exists, but only partially, and it would take at least five years of “excess production” to materially reduce the overall shortage. I can’t see that happening.

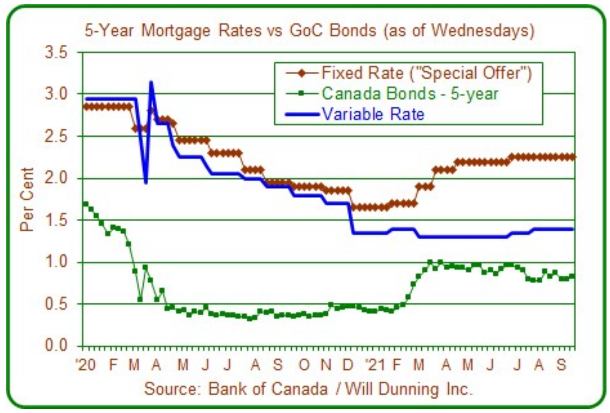


Moreover, the mix of housing matters. I believe that we are over-producing apartments (this is the result of very rapid growth of rents for new buildings during the past half decade, which is encouraging excessive investment in new rental condos and purpose-built structures). Meanwhile, family-friendly housing (especially low-rise development) remains far short of requirements. I see a possibility that during the coming half decade investors in new apartments will be disappointed (high vacancies, soft rents, with weaker selling prices). Meanwhile, the low-rise sector will remain highly pressurized.



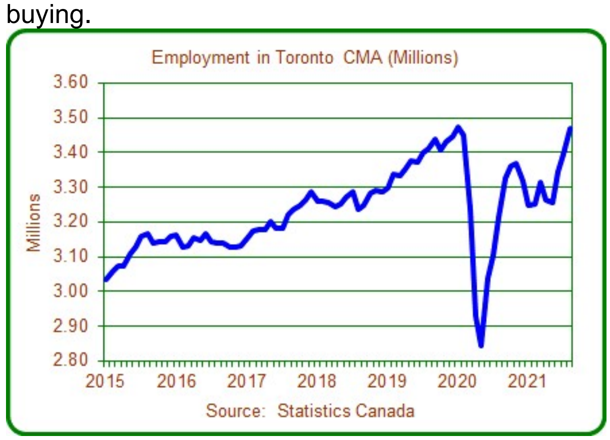
Interest Rates

Bond yields (and mortgage interest rates) have shown only minor variations during the past six months. The yield for 5-year Government of Canada bonds remains in the area of 0.8-0.9%. My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (advertised by major lenders) is 2.25%. For variable rate mortgages, my opinion-estimate is 1.40%. Canadian interest rates are now too low relative to economic conditions. It’s time for rates to rise by about a half point, for both fixed rate and variable rate mortgages.



Employment

Statistics Canada estimates that as of August, employment in Toronto CMA is now back to the pre-pandemic level (for all of Canada, estimated employment is still 0.8% below February 2020). It’s possible that the large jump reported for August (72,700, which is most of the 90,000 growth estimated for Canada) is a data artifact. We’ll see how the data evolves in the coming months. Regardless of that uncertainty, the employment situation is favourable for home buying.



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