Housing Market Digest

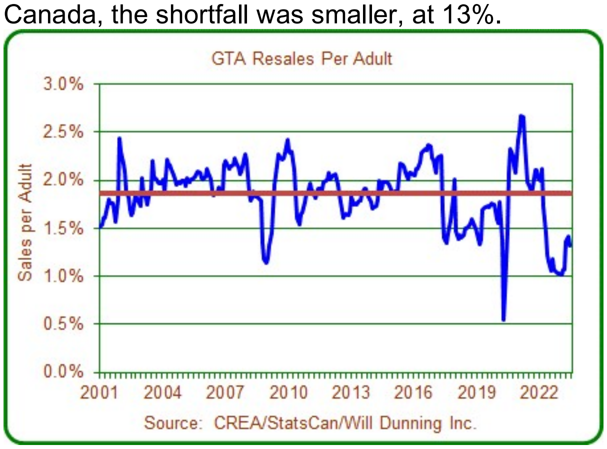
Greater Toronto Area, July 2023

Resale Market

A drop in interest rates during March caused a very small number of people to rush into the housing market – during April and May, total sales in the GTA were about 1,700 per month above the recent average (for all of Canada, the excess was about 6,000 per month – about one-half of the increment occurred in Toronto, Vancouver, and their hinterlands). This was most likely going to be a short-lived event, which would be followed by a slowdown during the summer. Moreover, interest rates climbed during May until early July, and now are sharply higher than they were during the winter. This might cause another short-lived rush, as a few buyers accelerate to take advantage of locked-in pre-approvals. Looking forward, I think it's most likely that unless interest rates retreat (to the level seen during the winter, if not even lower) sales will fall once again during this fall.

If you've ever been at one of my presentations, you've heard me say that my forecasts are always wrong, I know at the time that I will be wrong, but I don't know how badly wrong I will be or in which direction.

For June, the sales rate fell to an annualized 76,200, which was 7% lower than in May. On a population-adjusted average, June sales were 29% below the long-term average. For all of Canada, the shortfall was smaller, at 13%.

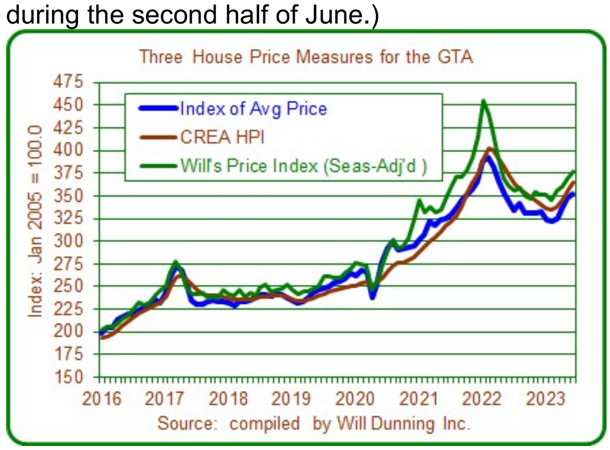


According to the published estimates, the flow of new listings into the market has increased during each of the past three months. Still, the inflow is constrained. For June, the population-adjusted rate was 23% below the long-term average. The combination of below average sales and below average listings resulted in a sharp drop in the estimated sales-to-new-listings ratio in June, to 54.3% (versus 66.6% in May). Toronto is close to its balanced market threshold of 52%.

The volume of active listings on the market has increased sharply during the past two months, but is still far below average (by 41% on a population-adjusted basis).

For the moment, the GTA resale market is still very tight. The balanced market threshold for the sales-to-active listings appears to be in the area of 32%, but the current value is much higher, at 50%.

All three of the price measures that I use rose substantially in June versus May, by 1.6% for the average price, by 2.2% for my alternative index, and 2.5% for CREA's index. I expect the market balance to shift considerably during the second half of this year (and into next year), as sales slow and the inventory of listings is likely to expand, and I see a possibility (but not a certainty) of non-trivial price reductions). (The analysis I do for my own neighborhood hints that prices started to fall during the second half of June.)



Interest Rates

My opinion estimates of mortgage interest rates have increased sharply compared to March, by a point for 5-year fixed rates and 0.9 point for variable rates. Most of the rise has happened since mid-June, and therefore the impacts on sales (and pricing) are just barely getting started. Rates locks (based on rates available during April and May) will provide a bit of near-term support.

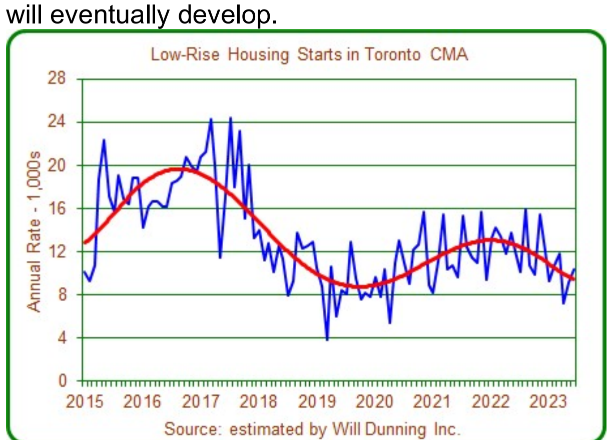
Affordability remains extremely poor, and it should be noted that interest rates are now even higher than in the last data point (currently 5.8% versus an average of 5.23% for June: at the 5.8% rate, the indexes for June would have been worse).

Please note: I have also shown affordability charts in the Canada edition, but the methodology is different and therefore you shouldn't compare the charts.

In the past, I frequently commented that a long-term downtrend for interest rates created "space" in which house prices could rise but still be affordable. That doesn't mean that prices had to rise to fill the space. Prices rose rapidly because of inadequate supply. But now, affordability is far out of the historic range. It is possible that prices could fall by a very large amount to restore affordability, but I'm definitely not predicting thatl. My main expectation is that there are going to be a lot of surprises during the coming year.

Housing Starts

Toronto CMA housing starts leaped in June, to the highest monthly level in the period since 1990 – the annualized rate was 85,800. The rise was entirely due to a huge lump of apartment activity, to an annualized rate of 75,400. Meanwhile, low-rise starts (an annualized 10,400) were only slightly above the extremely low volumes that have been seen recently. As I have commented frequently, apartment activity still reflects decisions made when interest rates were considerably lower, and I expect that a substantial slowdown will eventually develop.



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