Housing Market Digest

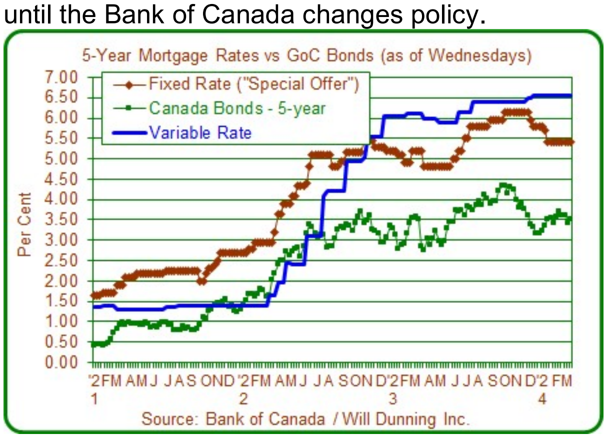
Greater Toronto Area, March 2024

Interest Rates

I have a lot to say about the Bank of Canada's interest rate policies, in the Canada edition of HMD for March, as well as in a report ("6 Short Essays", which I will publish in a few days on the Recent Reports page of my website). You won't be surprised that I think that the BoC is keeping interest rates a lot higher than they need to be.

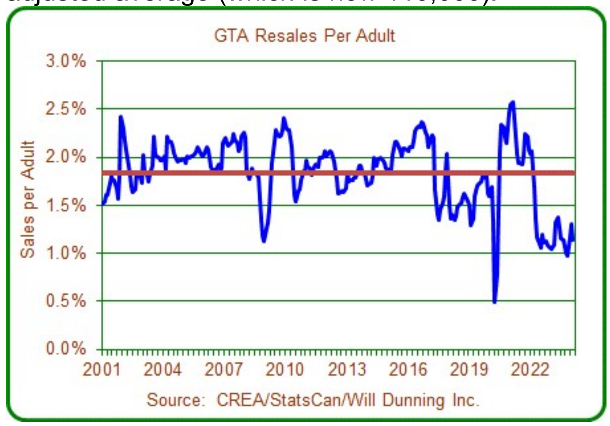
Bond yields have been less volatile during the past month.

My current opinion-estimate for 5-year fixed rate mortgages (5.4%) is 1.8-2.0 points above the current yield for 5-year Government of Canada bonds (3.4-3.6%). The spread is above the long-term average (about 1.6 points during the past decade). There is a bit of room for mortgage rates to fall, depending on what happens to bond yields. Regardless, mortgage rates are going to remain far above neutral, adding to risks for the economy, until the Bank of Canada changes policy.



Resale Market

Sales this February were sharply higher than a year ago, but at that time sales were exceptionally weak, as interest rates had increased sharply during prior months. On a seasonally-adjusted basis, sales this February (an annualized rate of 68,300) were lower than in January and December. The recent month-to-month variations aren't very important. The bigger picture is that due to horrible affordability, sales remain very weak in historic terms. In the GTA, February sales were 38% below the long-term population-adjusted average (which is now 110,000).

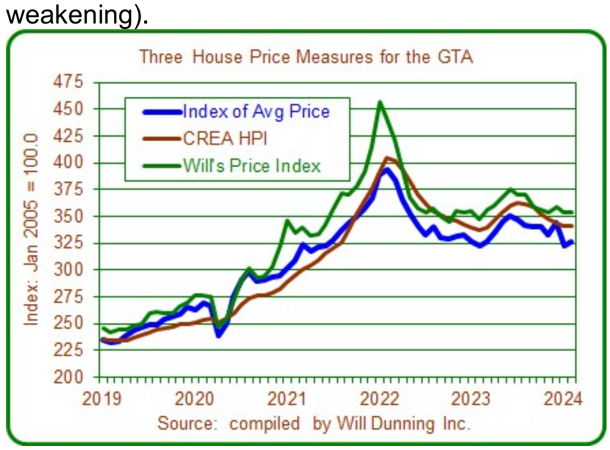


I had expected that the drop in the 5-year fixed rate (three-quarters of a point, during late November to January) would cause a temporary surge of sales. At this time, it looks like that bump was quite small and short-lived.

Inventories are still constrained (below the long-term population-adjusted averages by 22% for new listings and 42% for active listings). As I commented last month, voluntary selling is being deterred by poor affordability, and involuntary selling hasn't yet started.

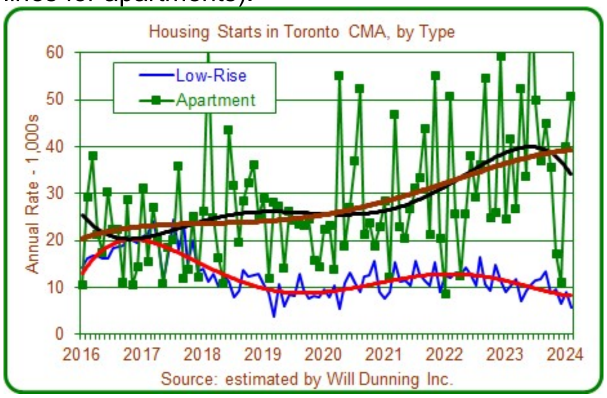
The sales-to-new-listings ratio (47% in February) is once again below the balanced market threshold of 52%.

Pricing indicators are currently showing small random movements, and there isn't a discernible trend (but there is a hint that prices are now weakening).

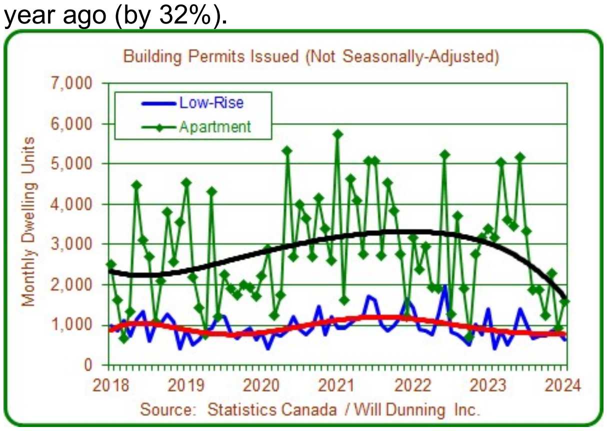


Housing Starts

Housing starts increased again in February. The trend is unclear (different types of trend lines tell different stories). It is clear that low-rise activity continues to erode. Apartment starts are still close to their peak, but the current direction is ambiguous (this chart shows two different trend lines for apartments).



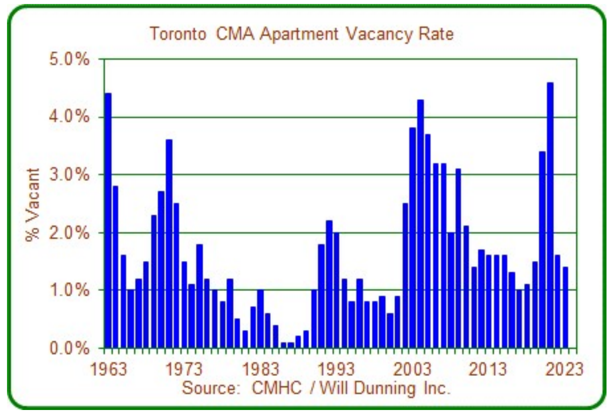
Building permit data might be sending a hint that we are getting closer to the turning point for apartments (this data isn't seasonally-adjusted, which makes it even more difficult to interpret). During the past six months, permits for apartments are sharply lower than during the same period a year ago (by 32%).



Further complicating the construction outlook: according to CMHC data, pending starts for apartments have been reduced from about 31,000 units a year ago to about 20,000. What isn't known, however, is how much of that pending supply is now on hold.

Rental Market

During February, CMHC released data from its annual rental market survey. The national vacancy rate fell to 1.4%, from 1.9% a year earlier. For Toronto CMA, the vacancy rate fell 1.4% from 1.6% a year earlier.



The smaller drop for Toronto is surprising, given that about one-half of the national housing shortage is in Toronto (according to the estimate in my forthcoming "6 Short Essays" report). This smaller-than-expected drop for vacancies implies that extreme rent growth is now causing reduced household formation by young adults. CMHC estimated that the average rent for existing structures rose by 8.8%. But for units that turned over, the estimate increase was 40%. For units without turnover, the increase was 4.4%. In the 2023 data, the estimated annual turnover rate was just 8.3% (in a healthy, well-supplied market it should be much higher, perhaps 25-30%).

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