Housing Market Digest

Greater Toronto Area, August 2023

The Rental Market

The GTA rental market has clearly become a lot more challenging, but I feel that the available data isn't giving us a full picture.

At this time, the data getting the most attention is from the https://rentals.ca/national-rent-report, which is produced in conjunction with Urbanation. https://www.urbanation.ca/

The most recent report shows an average rent for Toronto at $2,849 as of July, with a year-over-year increase of 11.5%. (I don't know what is defined as Toronto in this data, I think it might mean downtown or the former City of Toronto, since there is separate data reported for other former municipalities within 416, as well data for some 905 municipalities.)

The report states clearly that this is data for available units. Therefore, it doesn't necessarily represent what is actually being paid for new occupancies or the average for all (continuing) occupancies.

There is also some quite interesting and useful data in the quarterly investor reports from CAP REIT: https://ir.capreit.ca/financial-information-filings/quarterly-and-annual-results/default.aspx

The most recent report shows that as of June 30, CAP REIT's average monthly rent for occupied units in the GTA was $1,650, which was 5.3% higher than a year earlier. Compared to four years ago, the GTA average rent has increased at an annualized rate of 3.8%.

The 2023 report also shows that for units that turned over during the second quarter, the average rent increased by 26.9%. (The figures for renewals and turnovers are for the entire Canadian portfolio, not just the GTA.)

The report shows that there was a very small amount of turnover during the quarter: 3.3% of units. The turnover rate has fallen over time: a decade ago, the second quarter rate exceeded 7%: rapid growth of rents for available units has deterred tenants from moving.

While rents have increased very rapidly for turnover units, for lease renewals, the increase during the past year was 2.6%. As far as I can see, the report doesn't state what the average rents were for turnover units. Based on a back-of-the-envelope calculation, it appears to me that it is in the area $1,900-$2,000 for the GTA (considerably lower than the $2,849 average asking rent in the rentals.ca report). And, the average rent for CAP REIT tenants who renewed during the past year might be in the area of $1,600. The CAP REIT portfolio is older than the projects included in the rentals.ca data, and that would partially explain the differences in rents.

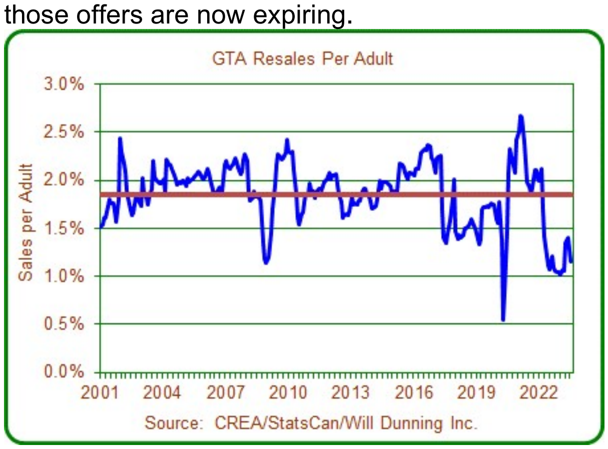
The CAP REIT data also shows that the occupancy rate for the GTA was 99.2% this year, virtually the same as a year ago (99.3%).

The data from these two sources confirms that the situation is dire for tenants who need to move, but for continuing tenants, rent regulation is providing some protection.

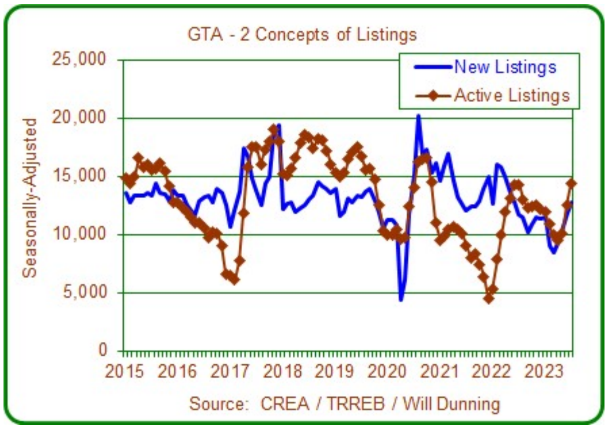
My bottom line here is that we need much more and much better data on rental markets across Canada: CMHC should be conducting its comprehensive survey quarterly, not just annually.

Resale Market

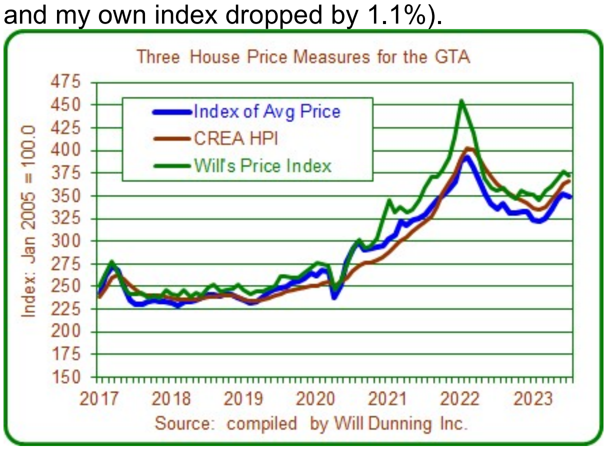
Sales slowed further in July, to an annualized rate of 67,500. This is 38% below the population-adjusted long-term average (which I now calculate as 108,200). We may see more weakening during the fall, as I suspect that there is still some support from rate locks issued during April to June, and those offers are now expiring.



Listings continue to expand (whether measured by the flow of new listings into the market or the inventory of active listings). The sales-to-new-listings ratio is now (at 44%) well below the threshold for a balanced market (52%). Active listings remain a bit tight (the sales-to-listings ratio is 38% versus a threshold of 32%). I expect that both measures of supply will continue to rise during the coming months, and there will be downward pressure on pricing into next year. The outcome will depend a lot on what happens to interest rates.



In my read, the data hints that pricing may now be falling. CREA's House Price Index showed a further rise for July (by 1.1% month-over-month). But, there is some smoothing built into that data, and therefore it can be slow to spot turning points. Two other measures showed drops for July (an index built on average prices was down by 0.7% and my own index dropped by 1.1%).

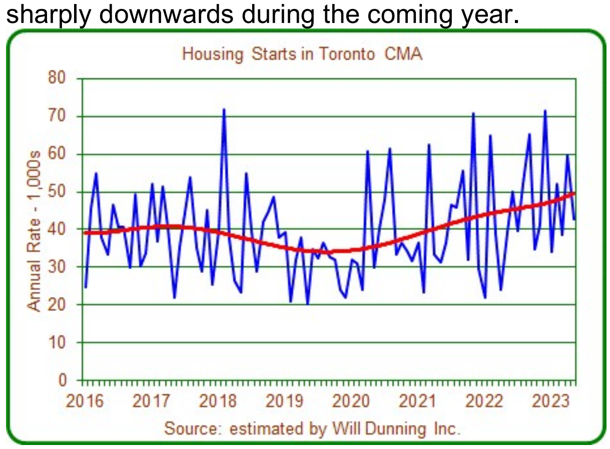


Interest Rates

Bond yields have increased during the past month, and are now at the highest level since 2007. My opinion estimates of mortgage interest rates haven't followed (yet), with the 5-year fixed rate at 5.8% increased and the variable rate is 6.4%. just barely getting started. I don't have an opinion on where rates are headed, but I do have an opinion that if rates aren't soon reduced by a large amount, there will be dire economic impacts in Canada (instigated by falling asset values and consumer distress).

Housing Starts

Toronto CMA housing starts are trending upwards, but with annualized activity in the range of 50,000 units, new construction is vastly less than is needed to meet the needs of our growing population. Apartment starts remain very strong, based on decisions that were made when interest rates were exceptionally low. Low-rise activity is very weak. I expect that total starts will turn sharply downwards during the coming year.



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