

# Housing Market Digest

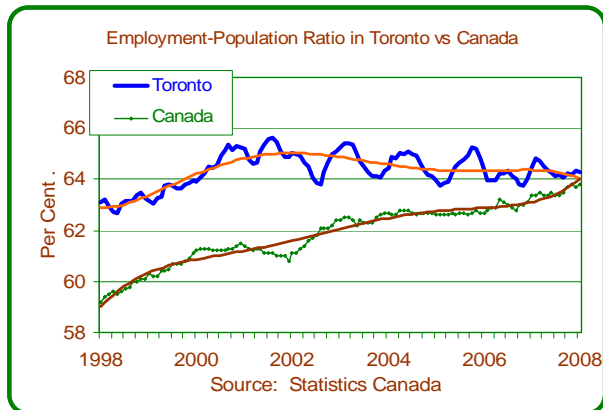
Greater Toronto Area, February 2008

**Synopsis: Toronto CMA employment continues to expand at about the same rate as the population, but that may change during 2008 and beyond. Resale activity remains quite strong but new home sales are trending lower – hopefully due to temporary factors. Mortgage rates still aren't following reductions in bond yields, and should gradually move lower.**

## Economic Trends

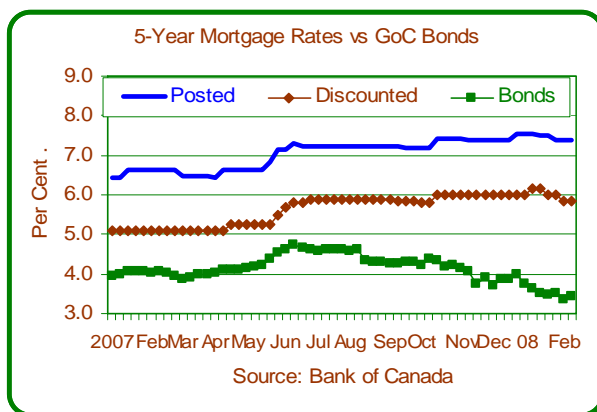
Employment in Toronto CMA was essentially unchanged in January, with a reported rise of 2,500. As I've been saying, the trend for the employment rate seems to be moving sideways, which is encouraging considering what's happened to the dollar and commodity prices.

For all of Canada, a large gain was reported (following an uncharacteristic dip in the December data). The employment rate for all of Canada remains at a record high level, and is now just ½ of a point below the rate for Toronto. The unemployment rate for Canada 5.8% is well below the Toronto rate of 6.7%.



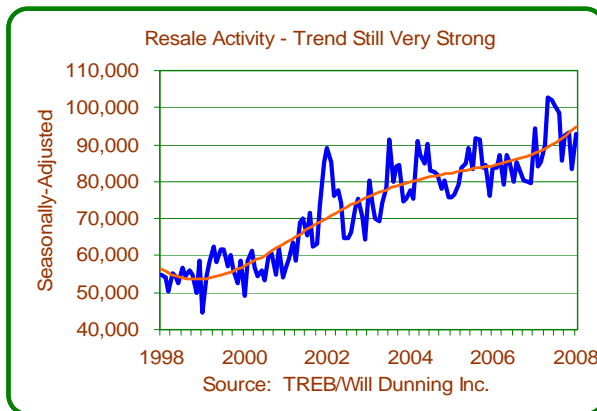
## Interest Rates

Bond yields have not changed much during the past month, with 5-year Government of Canada yields at 3.4% to 3.5%. During the past half-year mortgage rates have failed to follow bond yields lower, although there has been a slight drop in mortgage rates in the past few weeks (to 7.3% for posted rates and 5.85% after discounts). The spread between bond yields and posted mortgage rates (5-year terms) is now about 380 basis points, versus a normal spread of 240-250 basis points. For discounted rates the current spread of 235 basis points exceeds a normal amount of 110-120 basis points.



## Resale Market

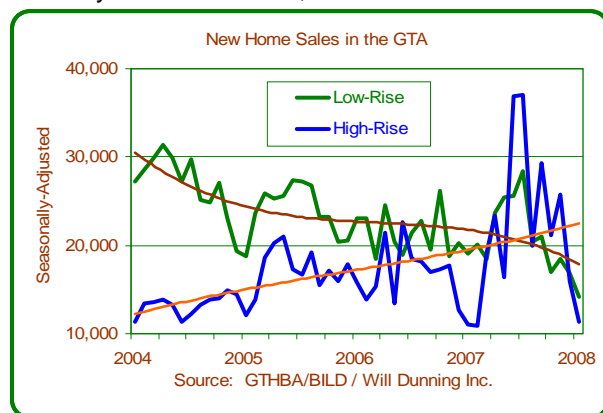
Resale market activity dipped in December, which we can blame on the weather, but rebounded in January, when the weather was closer to normal. 5,075 actual sales in January equate to 92,700 seasonally-adjusted. At this point, we should expect February sales to come in well below trend, but we shouldn't be alarmed.



The resale price dropped sharply in January to \$374,449. This is in part a normal seasonal effect. Despite that dip, my estimate of the price trend is still up by a phenomenal 11% year-over-year.

## New Homes Market

In contrast to the resale market, new home sales did not rebound from the December slump. 1,703 actual sales equate to 25,500 after seasonal-adjustment. This is the weakest monthly performance since February 1998 and it follows a relatively weak rate of 32,800 for December.



Low-rise sales were 1,019 actual units and 14,100 seasonally adjusted in January (the lowest since July 1996). New low-rise sales are much lower than they should be, in relation to the resale market and in relation to economic fundamentals. Explanations include issues in supply, pricing, and marketing.

For high rises, 684 actual sales equate to 11,400 seasonally-adjusted (much lower than in prior months, but still a strong performance).

## The GTA Outlook

Revised forecasts were published in [Toronto Employment and Housing Outlook](#) early in February. TEHO contains a discussion of economic fundamentals and forecasts for 2008 to 2010. Highlights include:

- Two scenarios are developed, one in which an economic slowdown leads to falling house values, which, through a “negative wealth effect” contributes to further weakening.
- While that is possible, I don’t consider it very probable, and so a “more likely” scenario sees continued house price growth, but at a much more modest rate than we have seen in the past six years.
- Comments that follow relate to the “more likely” scenario.
- The job creation forecast shows modest growth, of just over 1% per year. This would be less than the growth rate for the population and

in consequence the employment-to-population ratio would fall.

- Resale activity is forecast to decelerate rapidly during 2008. But, sales would be 5<sup>th</sup> best on the all-time list.
- The average price would rise by about 5%, but this growth rate would be mainly because there was so much change during 2007. Within 2008, price rises would be quite gradual.
- New home sales would also fall, with low-rise activity down by 9% and high-rise by about 30%. This forecast implies that low-rise activity will recover from the low rates of the past four months.
- Housing starts would fall in the low-rise sector, but increase sharply for high-rises. The forecast for high-rises is based on sales trends and makes some very strong assumptions: that sales hold, that developers can get financing on adequate terms, and they can obtain enough labour, equipment, and materials. Actual activity could be considerably lower than forecast.

Forecast for 2008		
	2007 Actual	2008 Forecast
Employment in 1,000s (Annual Average)	2,865	2,898
Resales	95,223	79,200
Avg Resale Price	\$377,066	\$396,200
New Home Sales		
Low-Rise	21,550	19,700
High-Rise	23,234	15,800
Total	44,784	35,500
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	22,904	20,800
High-Rise + Rental	10,389	22,000
Total	33,293	42,800
Source: Will Dunning Inc.		

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