

Housing Market Digest

Greater Toronto Area, April 2008

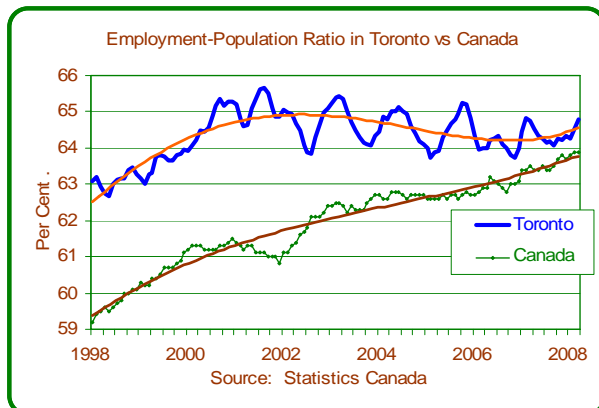
Synopsis: Following a weather-distorted first quarter, we'll soon see how much life is left in the Toronto housing market – a great deal I expect. Although the 2007 record won't be repeated, 2008 should be a good year - continued strong job creation is very encouraging. The huge gap between bond yields and mortgage rates has closed a bit, but still has a long way to go.

Economic Trends

Statistics Canada has reported a second consecutive very large increase in employment for Toronto CMA (17,000, or 0.6% in just one month). This report (for March) is an obvious continuation of a data artifact that began in February.

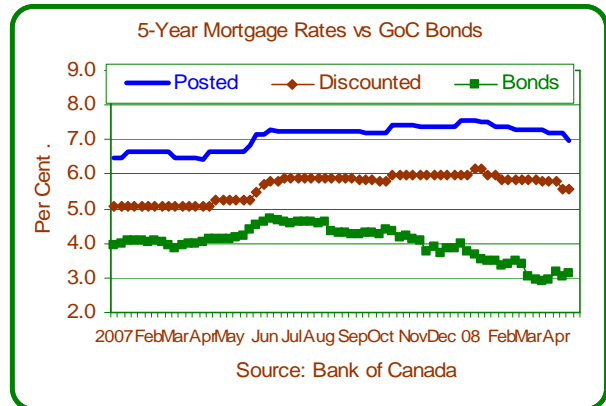
This paragraph is technical. For the CMAs, Statistics Canada smoothes the data by averaging it over three months. This means that there will most likely be another large increase shown in the data for April which, I repeat, will really be the consequence of a measurement problem for February. To make this even more complicated, the Labour Force Survey uses a "rolling sample" – one-sixth of the sample leaves each month. This means that if the current data artifact is due to a new error, that error would roll out during August and affect the reported data for August to October (it would show large reductions). On the other hand, if what we are seeing now is the correction of an old error, the data for August to October should be reasonably smooth.

For Canada small growth was reported for March (14,600 jobs, or 0.1%). Year-over-year growth (1.9%) exceeds growth of the adult population (1.4%) which means that the employment-to-population ratio remains at a record level. Since housing demand depends primarily on job growth, I see strong housing demand - for Canada - for at least the next 18 months. I do not share the opinion that "the housing boom is officially over".



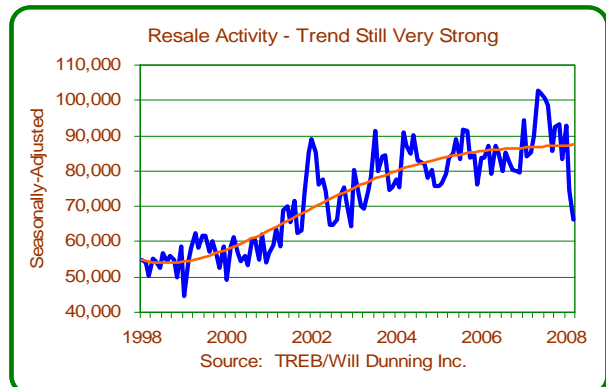
Interest Rates

Bond yields (Government of Canada) have backed up slightly during the past month, after troughing at mid-March. Current yields (5-year bonds) in the 3.1-3.2% range are very low in historic terms. Mortgage rates have moved slightly in the opposite direction, reducing the spread between bond yields and posted mortgage rates (5-year terms) to about 390 basis points, still far above a normal spread of 240-250 basis points. For discounted rates the current spread of 250 basis points is also well above normal (110-120 bps).



Resale Market

Due to continued nasty weather and road conditions, resale market activity was weak in March: 6,631 actual sales equate to 66,400 seasonally-adjusted. Published data from TREB suggests that a rebound has started in April.



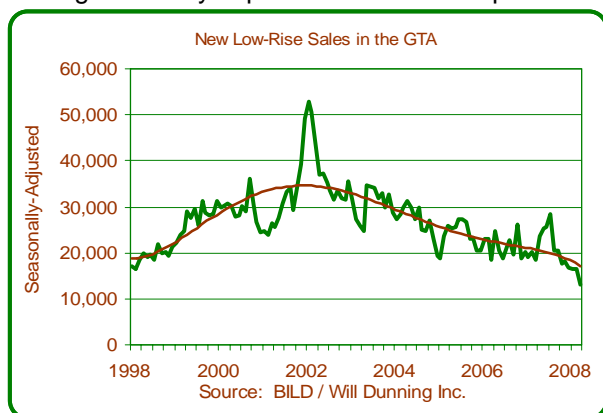
The very high sales record set in 2007 was influenced by the availability of 40-year mortgages, which expanded the market during the middle third of the year. Some reduction will occur in 2008. Even so, my forecast of almost 80,000 sales for this year indicates a strong market.

The resale price has moderated so far this year. With the average price at \$380,338 in March, my estimate of the price trend is up by 4.7% year-over-year.

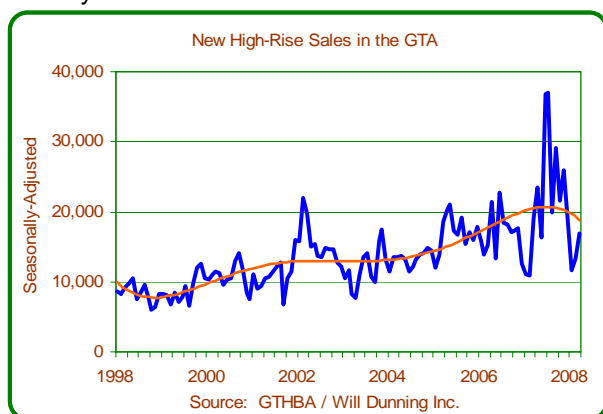
New Homes Market

New home sales remained weak in March - 3,077 actual sales equate to 30,100 after seasonal-adjustment, slightly better than February's 29,500.

Low-rise sales (1,391 actual units, or 13,100 seasonally-adjusted), were the lowest since 1996. Bad weather and reduced inventory are factors, but might not fully explain the recent slump.



For high rises, 1,686 actual sales equate to 17,000 seasonally-adjusted. While this is below the record pace of 2007, it is still very strong. Construction delays have resulted in a huge expansion of the supply pipeline. As projects are completed, I expect that sales will slow during the second half of this year.



The GTA Outlook

No changes have been made to any of my forecasts in the past month. More details are available in [Toronto Employment and Housing Outlook](#). A new issue will be available about the end of April.

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	21,500	19,700
High-Rise	23,400	15,800
Total	44,900	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.

Other News

Confused about “sub-prime”? Try this: http://www.youtube.com/watch?v=SJ_qK4g6ntM&feature=related. If this link fails, search youtube for “subprime humour long johns”. 8 minutes and 49 seconds well wasted.

New in Recent Reports at www.wdunning.com:

- A report for the Greater Toronto Apartment Association on the opportunity to provide housing assistance via rent supplements.
- A recent presentation on the GTA housing outlook, given to the Ontario Association of Land Economists (too bad you missed the wide-ranging banter).

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