

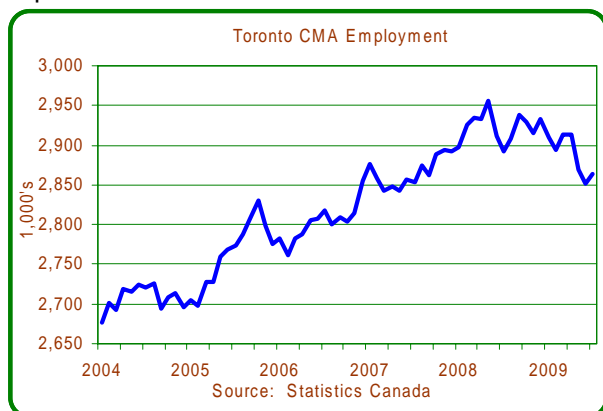
# Housing Market Digest

Greater Toronto Area, August 2009

**Synopsis: The GTA housing market continues to ride a wave, brought by improved confidence and affordability. But, weak employment will most likely lead to slower activity late this year and into next. My forecasts for this year have been revised sharply upwards, based on the current wave, and assuming it fades gradually. Activity could be weaker next year.**

## Economic Trends

For July a rise was reported for Toronto CMA employment, but the trend is still downwards: employment is down by 75,000 (2.6%) since last September.



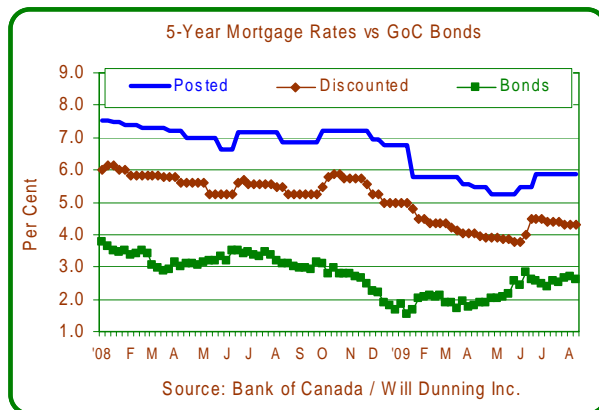
For all of Canada, a large job loss (45,000) was reported for July, and since the peak last fall employment is down by 2.4%. The amount of loss may have been exaggerated by weak student employment. If so, there may be partially offsetting rises in the reported data for this September.

As discussed in the new issue of my forecast report, I think that the job losses are almost finished, but it will be a while before we see a return to meaningful growth. This will limit the need and demand for new homes and apartments into 2010.

## Interest Rates

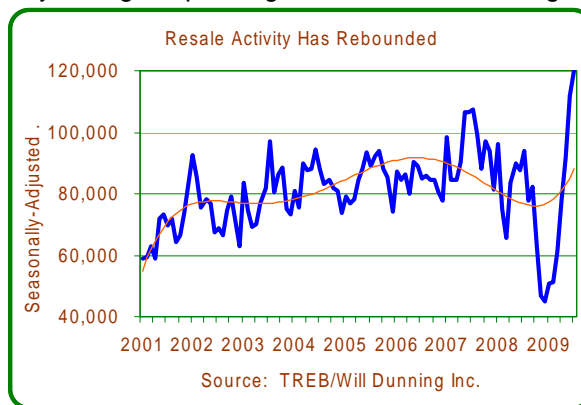
Bond yields have moved in a narrow range (about 2.4% to 2.7% for 5-year Government of Canada bonds) during the past two months, as short-lived waves of optimism and pessimism move the markets. In response, mortgage rates have changed very little. A typical 5-year mortgage rate (after discounts) is about 4.3%.

The Canadian dollar remains close to 90 cents US. 80 cents would be healthier.



## Resale Market

Resale activity has set two consecutive all-time records (with an annualized rate of 119,800 for July, based on 9,967 actual sales). As commented previously, the current wave has been based on two temporary drivers (the unfreezing of consumer confidence and changes in mortgage rates). Based on TREB's mid-month report for August, the current rate appears to be about 100,000 – still very strong but pointing towards further slowing.

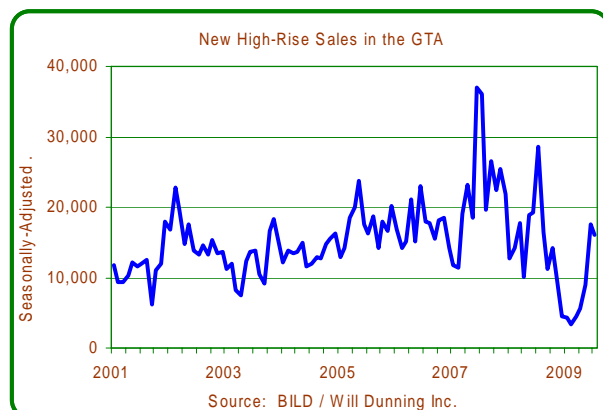
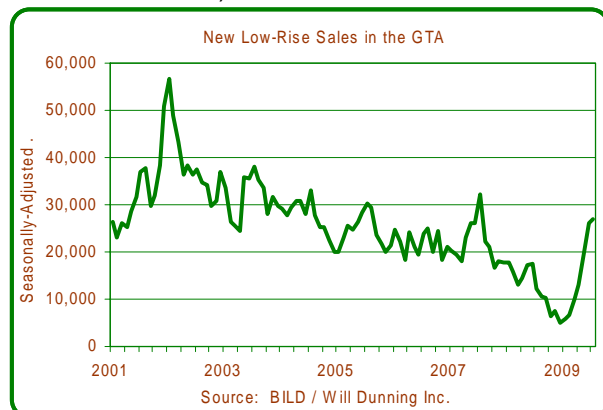


The average price dipped a bit in July, at \$395,414, lower than the June average of \$403,972 but 6.5% higher compared to a year ago. The supply of listings remains tight relative to sales, and selling periods are quite short (31 days in July, which is similar to the averages for 2006 to 2008).

## New Homes Market

New home sales also remained strong in July, but were far from being a record. The sales rate for the month (43,100 annualized, based on 3,119 actual sales) is similar to the healthy volumes seen during 2003 to 2007.

Sales were strong for both low-rises and high-rises. For low-rises, sales were at an annualized rate of 27,000 (based on 1,829 actual sales); high-rise activity reached 16,100 annualized (based on 1,290 actual sales)



- For the past three months resale activity has been much stronger than I had been expecting, and the forecast has been raised very substantially. I think the sales rate will erode rapidly in the next few months. During 2010 total resales may be closer to 70,000 versus 2009 sales in excess of 80,000.
- Similarly, the stronger resale market has arrested the drop in values seen earlier this year. But, if sales slow to the extent I expect, the price recovery may be just about finished.
- New homes activity is highly influenced in the short term by the state of the resale market. Over longer periods, growth of employment is the critical factor, as it generates a need to expand the housing stock. With employment having fallen since last fall, there is limited need for new housing activity. Therefore, I expect that new home sales will decelerate quite sharply late this year, and activity could be lower in 2010.
- Housing starts are likely to be stronger during the next few months, based on the sales made recently, but if sales slows as expected, then starts would weaken again next year.

### 2009 GTA Forecasts

	Prior	Revised
Employment in 1,000s (Annual Average)	2,880	2,873
Resales (units)	62,100	83,900
Average Resale Price	\$358,100	\$378,700
GTA New Home Sales		
Low-Rise	9,600	17,200
High-Rise	4,750	10,500
Total	14,350	27,700
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	9,825	13,750
High-Rise + Rental	15,950	14,050
Total	25,775	27,800

Source: Will Dunning Inc.

## The GTA Outlook

My forecasts have been sharply revised, and were published in [Toronto Employment and Housing Outlook](#). More info on TEHO is available here: <http://www.wdunning.com/forecastreport.html>

- The employment forecast is essentially unchanged – during the past few months employment has moved largely as I expected. The forecast indicates that there might be more jobs lost in the next few months, and then employment would stabilize. But, employment might not start to expand until the second half of next year.

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