Housing Market Digest

Greater Toronto Area, November 2009

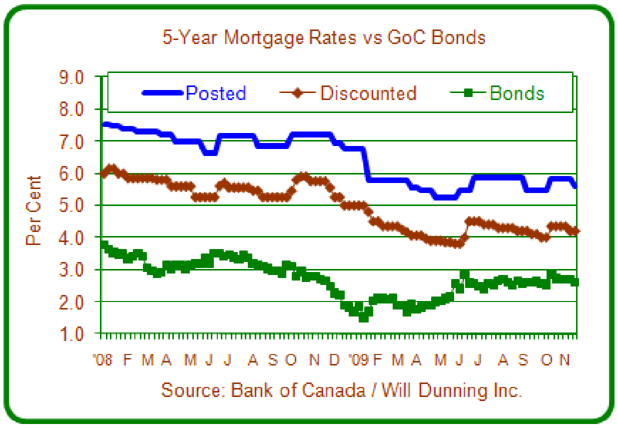
Synopsis: While stock markets were beaten up last winter, housing values were hurt much less badly, and have rebounded to record levels in much of Canada. Consumers are staying away from the stock market; housing data is hinting that it is now seen as an attractive "asset class", encouraging buying that is stronger than economic fundamentals would suggest. How long the recent huge wave of buying will last remains to be seen. I think it's ending.

Economic Trends

Employment in the Toronto CMA has recovered partway from the drop that occurred during last winter-to-summer. My read is that recent data has reversed reductions that were estimated for the summer, but that otherwise, the data is moving sideways. For all of Canada, the estimates are variable from month to month, but overall, employment seems to be flat. As I discuss in *Toronto Employment and Housing Outlook* I expect that we may see a moderate rate of job creation next year. The key factor is the recovery in the stock market and the strong rebound in house prices – an economic recovery depends upon those improvements (the wealth effects) being sustained.

Interest Rates

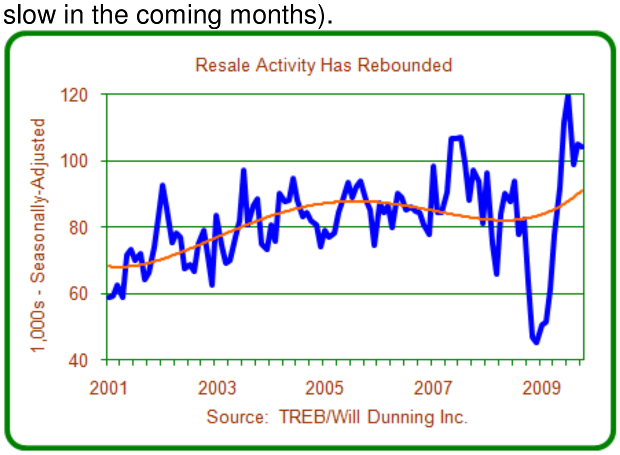
Bond yields have made some short-term moves recently, but the trend has been sideways since late spring. Mortgage rates have more-or-less followed, leaving the spread between bond yields and mortgage rates (after discounts) at about 150 basis points – far below the peak seen during the winter, and not much above the pre-crunch norm of 110-120 bps. A typical 5-year mortgage rate (after discounts) is now 4.2% - 140 bps below typical posted rates (just reduced to 5.59%). My forecasts assume that from here rates will creep upwards.



The Canadian dollar has found a range of about \$0.92-\$0.96 US - strong enough to further harm export-oriented sectors of the economy.

Resale Market

Resale activity remained very strong in October (104,000 seasonally-adjusted, based on 8,476 actual sales). Based on TREB's mid-month report for November, the current sales rate might be in the mid-80,000s, but it's too soon to say the market is slowing (although I am expecting it to slow in the coming months).



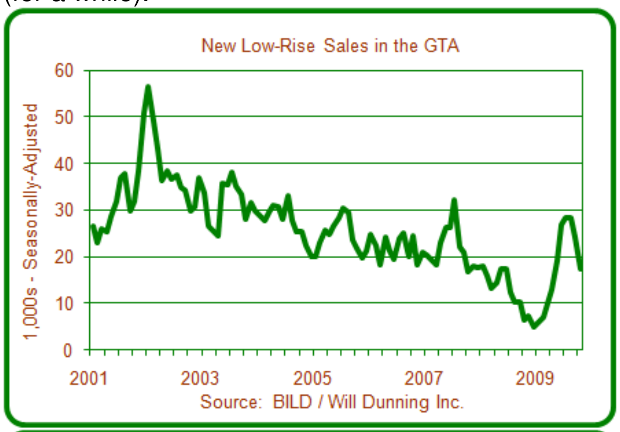
The average price jumped again in October (to \$423,559). My estimate of the price trend is up by 12% versus a year ago (that's the trend – the comparison of averages for October 2009 versus

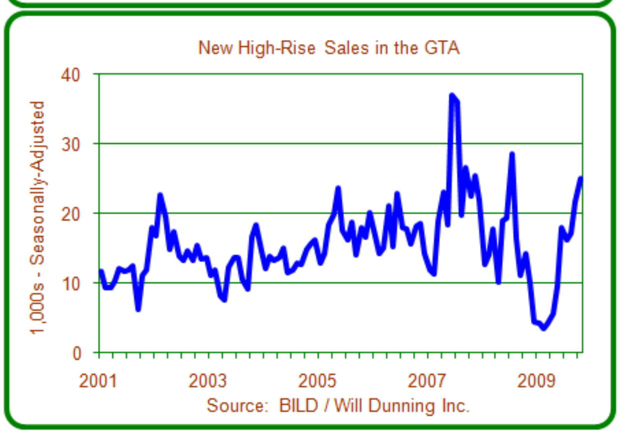
October 2008 shows a 20% rise). The supply of listings remains tight relative to sales, and selling periods are very short (just 26 days in October).

New Homes Market

New home sales eased a bit in October, but are still strong. The sales rate was 42,600 annualized, based on 4,150 actual sales.

Low-rises and high-rises diverged. Low-rise sales dipped to an annualized rate of 17,500 (based on 1,700 actual sales) versus an average of 26,900 in the prior four months. I wouldn't read too much into this one-month dip, as there have been few project openings and supply has been reduced. For high-rises, on the other hand, sales surged to an annualized rate of 25,100 (the 6th best ever!), based on 2,450 actual sales. Investors are back (for a while).





The GTA Outlook

My forecasts were revised in early November (see *Toronto Employment and Housing Outlook* for the scintillating details). Highlights are:

- Continuation of the US recession will limit the recovery in areas (like the GTA) that are highly dependent on the US.
- The recent wave of home-buying (new and resales) has likely peaked, and I expect that activity will soon fade.
- House prices may settle back from recent inflated levels.
- I still expect a correction in the high-rise sector.
- It seems to me that the stock market has gotten ahead of realistic economic prospects - this is a source of downside risk.

2009 and 2010 GTA Forecasts		
	2009	2010
Employment in Toronto CMA (1,000s - Annual Average)	2,890	2,970
Resales (units)	89,100	82,100
Average Resale Price	$392,000	$389,900
GTA New Home Sales		
Low-Rise	18,900	12,700
High-Rise	11,900	9,200
Total	30,800	21,900
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	13,900	17,500
High-Rise + Rental	13,700	11,400
Total	27,600	28,900
Source: Will Dunning Inc.		

Other News

Two new reports are available at wdunning.com, under Recent Reports.

- *"The Annual State of the Residential Mortgage Market"* (for the Canadian Association of Accredited Mortgage Professionals) provides data from a consumer survey on expectations for housing markets, data on mortgage choices, and forecasts of housing and mortgage activity.
- *"Dimensions of Core Housing Need in Canada"* (for the Co-operative Housing Federation of Canada) reviews trends in housing needs and speculates on the impacts that demographic trends will have on future housing needs.

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