

Housing Market Digest

Greater Toronto Area, December 2009

Synopsis: the GTA housing market remains frenzied, and the economy is in recovery mode. My forecasts suggest that housing activity will wind-down during 2010. The apartment vacancy rate in Toronto increased sharply this year. What a year it's been! Best wishes to you and your family, and I'm hoping to see you next year!

Economic Trends

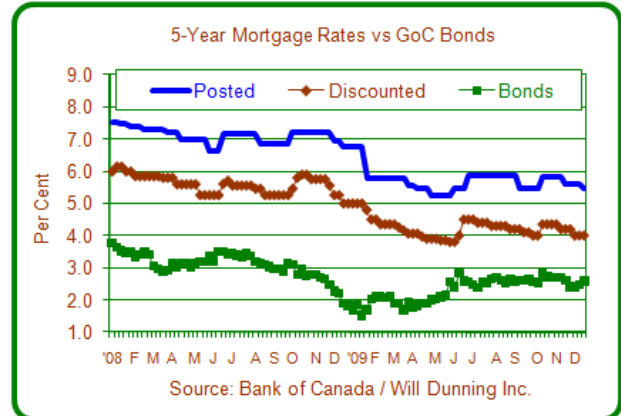
The newest data from Statistics Canada suggests that the Toronto CMA has recovered about three-quarters of the job losses that occurred during the recession. I suspect that the extent of rebound has been over-estimated (for my usual reasons), but a recovery is clearly underway. This has a lot to do with the "wealth effects" from the surging housing and stock markets. Based on recent trends for those wealth effects, my forecasting model suggests that there will be further strong improvements of the local employment situation through most of 2010. But, this depends on the stock market staying strong - a large and sustained stock market correction (which is not impossible) would negatively affect the housing market and the economy.



For all of Canada, it appears that the recovery has been weaker. The estimates have been variable from month to month. Overall, only about one-quarter of the job losses have been regained.

Interest Rates

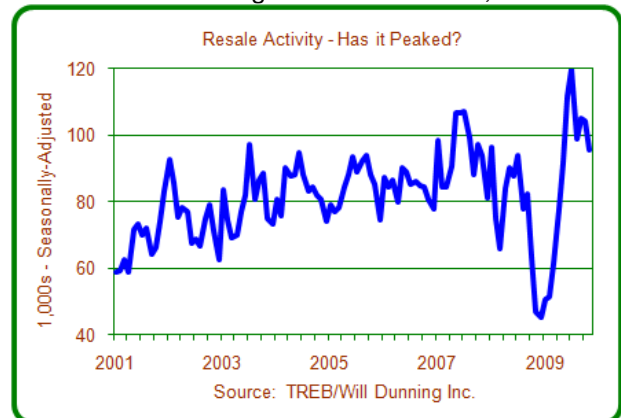
Bond yields dipped around the end of November as economic sentiment weakened, but yields have since retraced most of the drop. Mortgage rates followed the drop in bond yields but haven't yet matched the recent rises. If the higher bond yields are sustained, then we will soon see an uptick in mortgage rates. Regardless of short-term moves, I expect that mortgage rates will creep upwards.



During the past month the Canadian dollar has been in the neighbourhood of \$0.94-\$0.96 US - strong enough to further harm export-oriented sectors of the economy.

Resale Market

Resale activity eased in November, but at a rate of 95,500 (seasonally-adjusted, based on 7,446 actual sales) the rate is still quite strong. TREB's mid-month report for December suggests that the current sales rate might be in the low-90,000s.



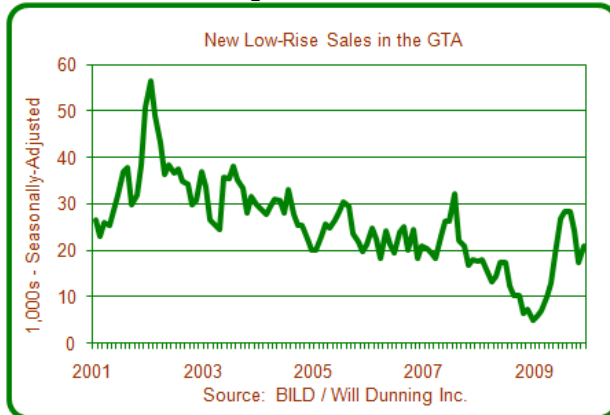
The average price dipped from the all-time record that was set in October. November's average (\$418,460) is the second highest all-time. My estimate of the price trend is up by 15% from a year ago. Listings remain in short supply and continue to contribute to frenzied bidding situations as well as demand spillover into the new homes market.

My forecast suggests that in the coming months sales will slow, listings will expand, and some of the recent price gains will be reversed. The November data suggests that this process might have started (but it's too soon to know for sure).

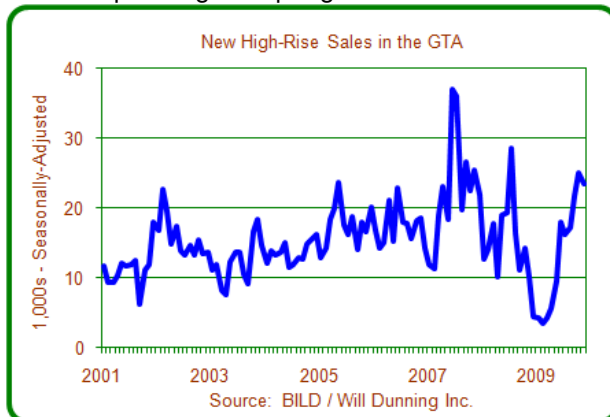
New Homes Market

New home sales remain quite strong. For six consecutive months, the sales rates (seasonally-adjusted) have exceeded 40,000. Based on 3,972 actual sales, the November sales rate was 44,500 annualized.

Low-rise sales are lower than they were during the summer (but vastly better than last spring). The November sales rate was 21,000 annualized (based on 1,864 actual sales). The slower sales rates in October and November have more to do with lack of supply than with demand. If there was more supply the sale rates would probably have been in the mid-to-high 20,000s.



For high-rises, on the other hand, sales have surged. The November sales rate was 23,500 (the 8th best ever!), based on 2,108 actual sales. There is a huge volume of completions pending and a similarly huge market correction can be expected to develop during the spring and summer.



The GTA Outlook

None of my forecasts have been revised since last month (see [Toronto Employment and Housing Outlook](#) for the details). The forecast expects that sales trends in the new and resale markets will soon weaken.

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

CMHC has released its rental market survey results: as of October, the vacancy rate for Toronto CMA is 3.1%, up from 2.0% a year ago. My interpretation and forecast are at www.wdunning.com, in the Apartment Rental Market section. I expect that the vacancy rate will increase further in 2010, as a high volume of completions of condominium completions will draw tenants out of the rental market

I have two speaking engagements for January (and I'm pleased to consider other opportunities):

- Genworth's annual staff conference on the 18th.
- Durham Region Home Builders' Association dinner meeting on the 19th.

How to Reach Will Dunning Inc.

Telephone: 416-236-5115
 Email: wdunning@sympatico.ca
 Web site: www.wdunning.com

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2009