

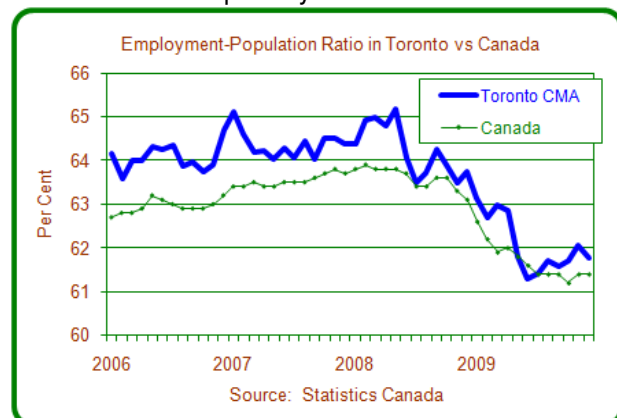
# Housing Market Digest

Greater Toronto Area, January 2010

**Synopsis: housing demand is hugely ahead of the key economic fundamental of job creation. The recent surge of sales and prices surge is due to low interest rates and fears that rates will rise. This wave has to dissipate eventually, and the next 9 months will be disappointing compared to the past 9. Please check out my recent report on risks in the mortgage market.**

## Economic Trends

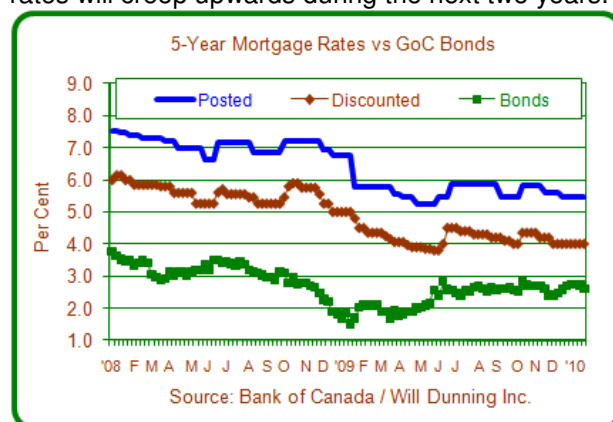
Employment data from Statistics Canada are pointing towards recovery for both Toronto CMA and Canada. The employment-to-population ratios appear to be flat (more-or-less), meaning that employment is growing at the same rate as the population. Of course, we would prefer to see a more rapid recovery – my forecasting models suggest that the employment rates will soon start to rise, but only gradually. This means that the jobs recovery won't be very robust and it will be some time before we see sustainably strong housing demand. As I will discuss in more detail in [Toronto Employment and Housing Outlook](#), the forecast of expanding employment depends a lot on “wealth effects” from housing values and the stock market. Keep an eye on them.



A key input to the employment estimates is changes in population. Each month, Statistics Canada creates estimates of changes in population. After each Census there is a comprehensive review of actual changes and the estimates are revised. The revisions have still not been made for the 2006 Census - we are still waiting for a review that will revise the estimates as far back as 2001. I suspect that since 2001 the employment estimates for Toronto CMA have been too high by as much as 10,000 to 15,000 per year. The post-2006 update is now scheduled for January 2011, at which time we may see very large downward revisions to the employment numbers for Toronto CMA (and the GTA).

## Interest Rates

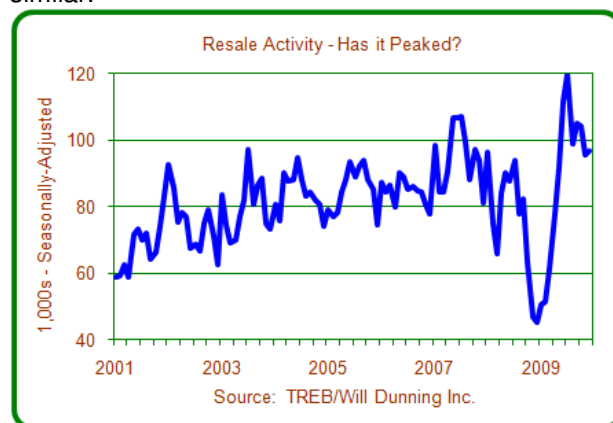
Bond yields have made small moves in the past two months but mortgage rates have been flat. The spread between bonds and discounted mortgage rates (5 years) is now about 1.25 points, not much above the 1.10-1.20 that was typical prior to the recession. I still expect that mortgage rates will creep upwards during the next two years.



The Canadian dollar continues to strengthen and is now in the neighbourhood of \$0.97 US, posing a continued threat.

## Resale Market

Resale activity is still strong, with the December rate at 96,800 (seasonally-adjusted, based on 5,541 actual sales). TREB's mid-month report for January suggests that the current sales rate is similar.

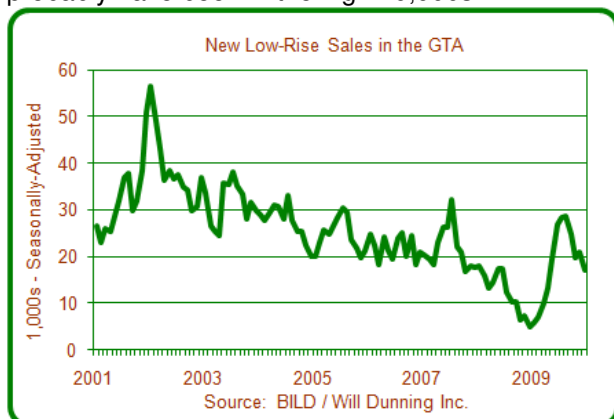


The average price dipped in both November and December from the all-time record that was set in October. A late year drop in the average is a common event. December's average (\$411,931) is up by 14% from a year ago. Listings remain in short supply and continue to contribute to frenzied bidding situations as well as demand spillover into the new homes market. As I've discussed, the recent wave of buying has to do with low interest rates and fears of rising rates: these are temporary factors and sales will have to slow, due to the weakened economy.

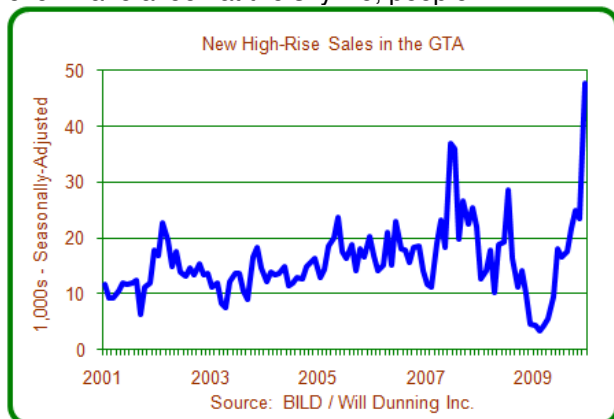
### **New Homes Market**

New home sales were surprising in December due to a huge surge of high-rise activity. The seasonally-adjusted sales rate for the month was 64,700, based on 3,148 actual sales.

Low-rise sales were soft (17,000 annualized based on 920 actual sales). The recent slide may be due to limited supply rather than demand. If there was more supply the sale rates would probably have been in the high 20,000s.



High-rises were silly: an annualized rate of 47,700 (based on 2,228 actual sales), the highest rate ever. Take a look at the skyline, people.



### **The GTA Outlook**

None of my forecasts have been revised since last month. New forecasts will be published in [Toronto Employment and Housing Outlook](#) at about month-end. I'm guessing that the housing forecasts will be revised upwards to reflect recent momentum, with a slowdown later in the year.

<b>2009 and 2010 GTA Forecasts</b>		
	2009	2010
Employment in Toronto CMA (1,000s - Annual Average)	2,891	2,970
Resales (units)	89,300	82,100
Average Resale Price	\$396,200	\$389,900
GTA New Home Sales		
Low-Rise	18,200	12,700
High-Rise	15,400	9,200
Total	33,600	21,900
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	13,072	17,500
High-Rise + Rental	12,877	11,400
Total	25,949	28,900
Source: Will Dunning Inc.		

### **Other News**

New in the Recent Reports section at [www.wdunning.com](http://www.wdunning.com):

- A short report for CAAMP on risks in the mortgage market, which responds to recent concerns that Canadians may be over-borrowing. It concludes that Canadians remain cautious and the vast majority are well positioned to deal with future rises in their mortgage payments
- Also, two new presentations: one on Canada (for Genworth) and one on the GTA (for the Durham Region Home Builders Association).

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