

# Housing Market Digest

Greater Toronto Area, February 2010

**Synopsis: it seems to me that recent very strong housing demand has been based on temporary factors, and the market has to slow - but the timing is uncertain. It is highly likely that the sales will be considerably slower in the second half of this year. The recovery of employment will - if sustained - positively affect housing demand later in 2011 and into 2012.**

## Economic Trends

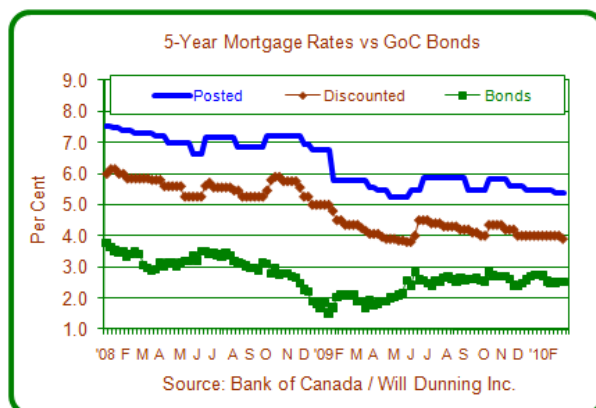
The employment data continues to show recovery for both Toronto CMA and Canada. For Toronto, the level of employment is now just a whisker (about 7,000 jobs) lower than at the start of the recession in the fall of 2008. The really good news is that employment is growing a bit faster than the population, resulting in a rising employment-to-population ratio and a falling unemployment rate. Based on "wealth effects" from housing values and the stock market, it is very reasonable to expect further improvement this year. Of course, if you read [Toronto Employment and Housing Outlook](#), you know all about that.



## Interest Rates

Bond yields have been largely stable since June. Current yields (about 2.5% for 5-year maturities) suggest that the bond market is expecting a less-than-robust economy (which does seem to be out of sync with the strong recovery in stock markets). Similarly, there have been few changes for mortgage rates. A typical posted rate (5-year term) is 3.9%. The spread between posted rates and discounted rates is 1.50 points.

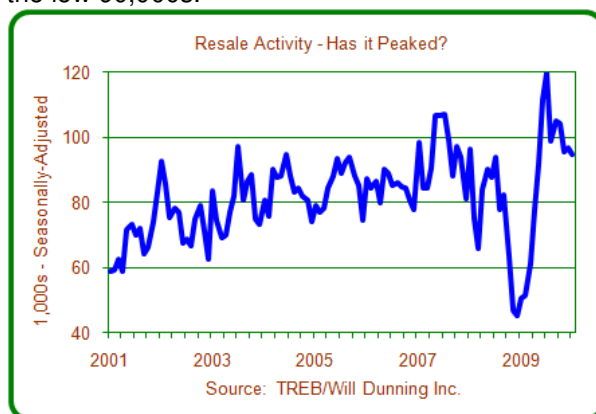
With the proposed changes to qualifying criteria for insured mortgages – all loans must be tested against the lender's posted rate for 5-year terms – I am wondering if this will force lenders to reduce the spreads between their posted rates and their "special offers".



The Canadian dollar remains just short of par with the US dollar, and is now in the neighbourhood of \$0.96 US, posing a continued threat.

## Resale Market

Resale activity remains strong, with the January rate at 94,700 seasonally-adjusted (based on 4,986 actual sales). TREB's mid-month report for February suggests that the current sales rate is in the low 90,000s.



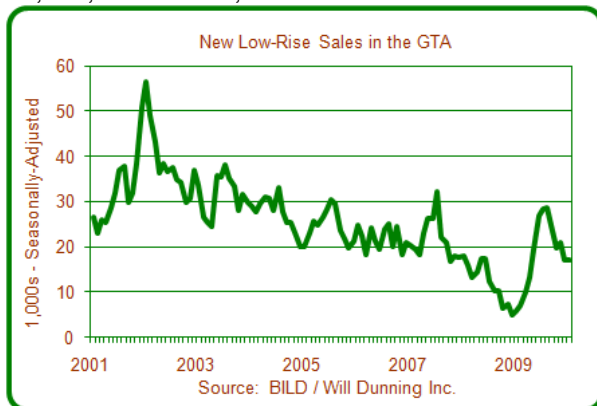
The average price was a bit lower in January (\$409,058 versus \$411,931 in December) and the price trend has moved sideways during the past few months. But, the supply of listings remains very tight, selling periods are short, and sales are still often highly-pressurized. The pressures should abate during the spring and summer – the negative consequences of the recession will take some time to play out. All of the talk about 19%-

20% price growth (year-over-year) neglects that prices temporarily troughed a year ago. Compared to two years ago, the average price is up by 9.2%, or an average of 4.5% per year.



### New Homes Market

New home sales were lower in January, from an exaggerated volume in December. The seasonally-adjusted sales rate for the month was 35,000, based on 2,162 actual sales.



Low-rise sales remained soft (17,000 annualized based on 1,145 actual sales). As I have said for several months, low-rise activity has been constrained by lack of supply - if there was more

supply recent sale rates would probably have been in the high 20,000s.

High-rise sales fell back sharply from the unusually high rate seen in December. January's sales rate was 18,000, based on 1,017 actual sales. This is still a quite robust rate of sales.

### The GTA Outlook

My forecasts have been revised, and were published in *Toronto Employment and Housing Outlook*. Three scenarios were developed. The middle scenario is summarized here. Housing forecasts have been revised upwards, reflecting recent momentum. But that momentum is mostly due to temporary factors (including job creation that occurred before the recession, record low mortgage rates, and urgency to buy before rates increase).

The forecast increase in housing starts is due largely to sales seen in the second half of 2009. It is possible that starts will be lower in 2011.

2010 GTA Forecasts		
	2009 Actual	2010 Forecast
Employment in Toronto CMA (1,000s - Annual Average)	2,890	2,943
Resales (units)	89,273	85,000
Average Resale Price	\$396,158	\$399,000
GTA New Home Sales		
Low-Rise	18,190	13,300
High-Rise	15,425	15,500
Total	33,615	25,800
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	13,072	17,600
High-Rise + Rental	12,877	15,400
Total	25,949	33,000

Source: Will Dunning Inc.

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