

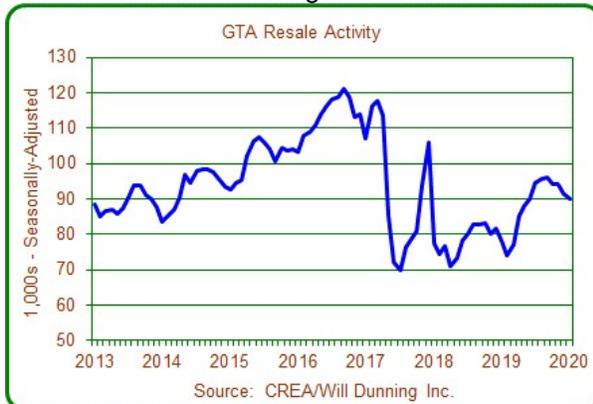
Housing Market Digest

Greater Toronto Area, February 2020

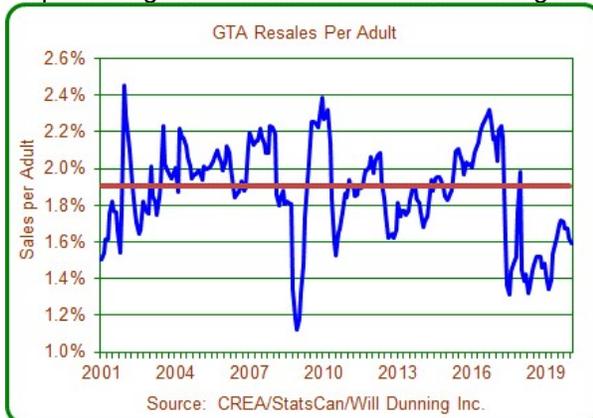
Synopsis: Housing market numbers for January were a bit disappointing, but I caution against attaching much significance to December or January in any year, partly because they are vulnerable to unusual weather.

Resale Market

The estimates of resale activity continue to slip from the peak seen during late summer/early fall. But, having said that, I suspect that the January estimate – an annualized rate of just 90,000 – could be revised upwards later on. In any event, sales are still much weaker than they should be, due to the combination of the mortgage stress tests and insufficient listings.



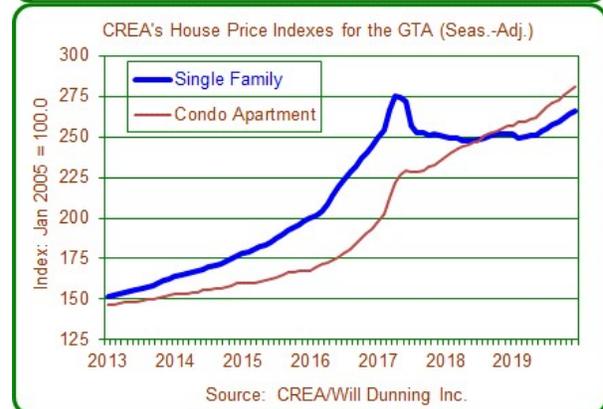
On a per adult basis, sales remain about 15% below average, when strong fundamentals should be producing a sales rate that is above average.



The estimated sales-to-new-listings ratio dropped to 65% in January (but I suspect that this might also be revised upwards). It remains far above the balanced market threshold of 54%.

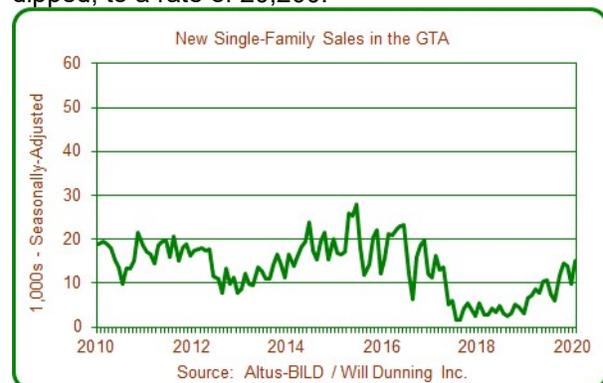
Prices continue to accelerate. CREA's House Price Index is up by 8.5% during the past year (and, over the past six months the increase has been an annualized rate of 12%). The rate of increase for condo apartments is 11% (13% over the past half year). For single-family homes the

year-over-year rate is 7.1% (but 11% over the past six months).



New Homes Market

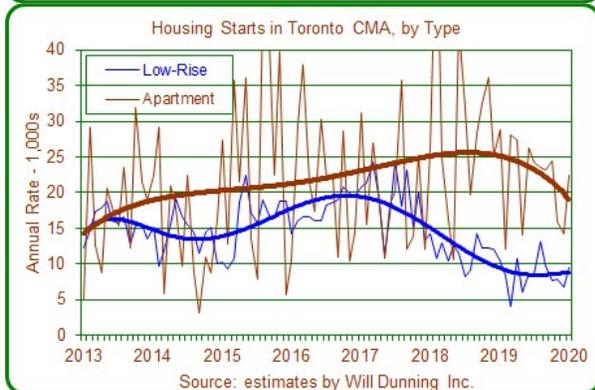
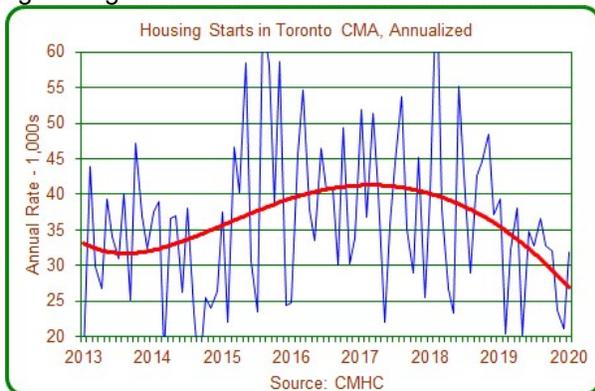
New home sales were at only a moderate level in January, at an annualized rate of 35,300: Based on population growth, the figure should be higher by at least 10,000 units. Single-family activity continues to improve – the seasonally-adjusted rate for January (15,100) was the highest in three years, but is still too low. Apartment activity dipped, to a rate of 20,200.





Housing Starts

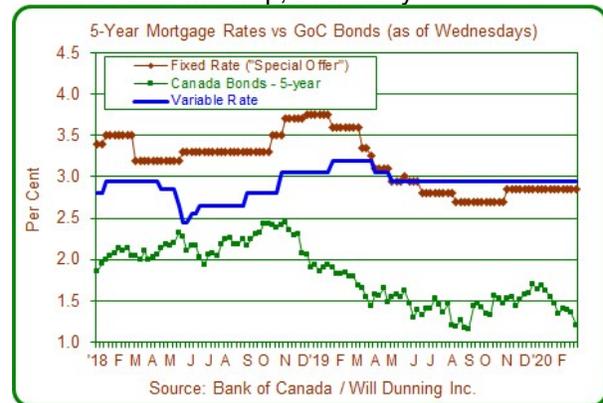
Housing starts remain very weak in the Toronto CMA, due to very weak low-rise sales since mid-2017 and slower apartment sales during 2018. While sales have improved, it will take some time for that to translate into starts. Meanwhile, housing completions will be impaired for some time by the falling trends for starts. This will result in further tightening in the rental market.



Interest Rates

We are in territory where economists can't be very helpful about the outlook. Fear and uncertainty will have negative consequences in economic realms. My opinion-estimate of major lenders' advertised "special offer" rate (5-year fixed-rate mortgages) is still 2.85%, but non-advertised rates have no

doubt responded to lower bond yields. I expect the advertised offers will drop in the next few weeks. Variable rates will drop, eventually



The change to the mortgage stress tests (the switch to the median interest rate for CMHC mortgage insurance) will have very little impact on new or existing sales: the design of the tests is still fundamentally flawed and unreasonable.

The Outlook

No changes have been made to my forecasts

Toronto Indicators		
	2019	2020
Job Growth	3.9%	1.9%
Resales (units)	88,223	97,000
Sales-to-New-Listings	57.8%	63.5%
Ch. in Avg. Resale Price	3.9%	6.7%
GTA New Home Sales		
Low-Rise	9,523	18,400
High-Rise	26,948	25,200
Total	36,471	43,600
Housing Starts (CMA)		
Low-Rise Ownership	8,515	13,800
Ownership Apartment	17,857	19,800
Rentals	4,090	2,500
Total	30,462	36,100
Apt. Vacancy Rate	1.5%	0.9%
Rent Increase	6.5%	4.5%

Source: forecasts by Will Dunning Inc. (Jan. 30/20)

How to Reach Will Dunning Inc.

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

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