

# Housing Market Digest

Greater Toronto Area, March 2021

***During the past decade and a half, low-rise housing (singles, semis, and row homes) has been under-produced by about 100,000 dwellings in the Toronto CMA. We're paying for that now.***

## ***There Are No Easy Solutions***

During the past decade, multiple changes in the federal government's mortgage regulations have made it more difficult to obtain financing and thereby reduced home buying. This reduced the market pressures experienced by those who were still able to obtain the financing they need. But, there have been costs, including needs to downsize expectations from what people believe they can reasonably afford. There is a smaller number of people who consider themselves able to buy, but the policies have made it impossible to achieve an ownership solution that meets their needs.

Moreover, reduced home buying means that fewer people can exit renting to become home owners, and this has added to pressures in rental markets. While the mortgage regulations have made conditions easier for some home buyers, they have made conditions worse for renters.

There is another, longer-term impact: sales are reduced not just for resales but also for new homes, and the resultant under-production has contributed (along with other impediments to new housing development) to substantial shortages of housing inventory. Those shortages are now contributing to over-heating in the GTA and across the county.

During the past few years, there have been intermittent calls for mortgage regulations that will reduce buying by investors (such as reducing maximum loan-to-value ratios). If implemented, this would have effects somewhat similar to the home owner regulations. A reduction in purchases by investors would make the market easier for owner-occupant buyers, but it would also reduce available rental supply, making conditions more challenging for renters. If such a policy works as intended, it will have the long-run effect of further constraining the growth of the housing supply: pre-construction purchases by investors help builders get financing for new projects, especially for condominiums. If those sales are reduced, there will be less new supply for the future.

## ***Will's Theory of the Housing Market***

Many years ago, I had a eureka moment: in a bottom-line analysis, it doesn't matter whether

housing is occupied by renters or owners, or if it's owned by landlords or owner-occupants. What matters is how much housing exists versus how much housing is required.

If a policy doesn't alter the total supply of housing or the total need for housing, then, in the long-term, it will have little consequence at the bottom line. But, it might have effects that benefit some people and hurt others, by amounts that are roughly offsetting. In the case of mortgage regulations (actual past changes and those being suggested at present), the benefits are experienced by people who are still able to buy, and the losses are experienced by others (people who have to settle for a purchase that is less than they think is suitable for them in their circumstances, others who consider themselves good candidates but are unable to buy anything, and especially for renters, for whom market conditions become more challenging).

But, if a policy also impairs housing supply (as I believe the mortgage regulations have in the past and will for the future), then it has worsened the bottom-line and Canadians are worse-off overall.

I'm not saying that the mortgage tests should be abolished. Of course not: it's necessary for lenders to assess borrower risks. But I am saying (once again) that the rules we have now are far from being optimal (notably, using an interest rate that is far above the actual rates seen for many years and which is far above expectations about what could happen to rates in the foreseeable future, and the failure to consider income growth that will assist borrowers with their future payments).

## ***Demographic Requirements***

Demographic analysis uses data on the population and calculates impacts of changes over time. Here, I've developed a scenario based on estimated actual population growth during 2007 to 2020, assuming that housing choices (by age group) stay the same as in 2006, to calculate how much housing would have been required.

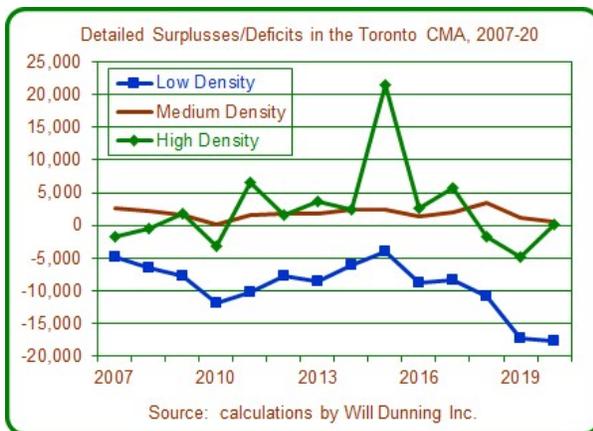
The first chart below compares the requirements and production. In most years, completions were less than the theoretically required amounts. For the period covered in this chart, total actual production (472,000) was 70,000 (or 5,000 per

year) less than the requirement (542,000). Production was less than required in most years.



The next chart compares supply versus estimated requirements for three major dwelling types.

- 295,000 new “low density” homes (single-detached or semi-detached) would be required. New supply was 165,000, resulting in a deficit of 130,000 dwellings unit for the entire period, or an average of about 9,300 per year (the blue line in this chart).
- For “medium density” (row homes), 38,000 were required in total. The actual supply (63,500) exceeded the requirement by about 25,000, or 1,800 per year (the brown line).
- For low-rises (low and medium density combined), there was a shortfall of 105,000.
- For “high density” (apartments), the requirement was 209,000, but actual completions totaled 243,000, or 34,000 above the requirement (about 2,500 per year – the green line).

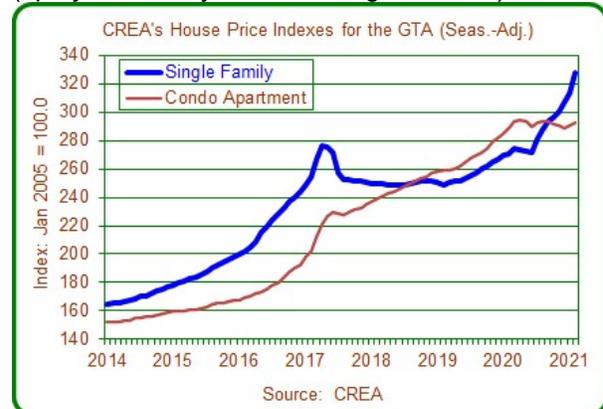


### Housing Starts

Housing starts remain strong for high density housing and too low for low density. Due to prolonged production shortfalls, there isn't enough existing housing that can be sold. The shortage for low density won't get better any time soon.

### Resale Market

Now that demand is shifting towards low density living, the housing shortage is resulting in extremely rapid price growth in the low-rise sector (up by 20.6% in just the last eight months).



### Some Unexpected Help

Two current events might provide a bit of relief:

- Movements out of the biggest cities is causing strong demand and price growth elsewhere, and slightly reducing pressure within the GTA. If new supply is more “elastic” in those other places, the price growth will encourage increased supply for the entire country, gradually reducing price pressures.
- The Covid-19 driven collapse of immigration into Canada is resulting in much slower population growth and a lower requirement for new housing. To the extent that continues, on-going construction of new homes can gradually (but only partially) reduce the supply deficit that currently exists.

The supply imbalance developed over a long period and it can't be fixed quickly.

*I'm looking forward to seeing you again.*

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