Housing Market Digest

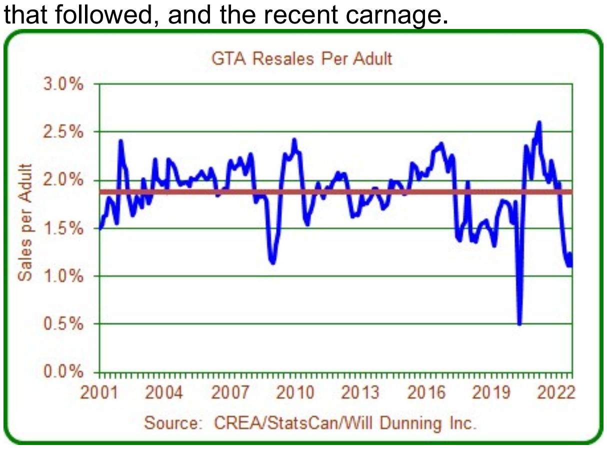
Greater Toronto Area, October 2022

Resale Market

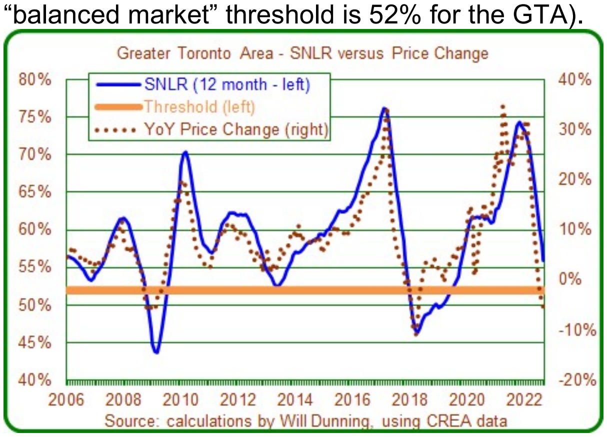
The surprising jump in sales that was seen in August was reversed in September, to an annualized rate of 63,000. I continue to expect that there could be further slowing in the next few months, due to expiry of interest rates locks. During September, there would have been some sales that relied on rates from June, in the area of 4.4%. Now, the relevant interest rates (from July) are in the area of 5% (and above).

On a population-adjusted basis, sales in the GTA are extremely weak, at 42% below the long-term average. This sales rate is lower than any other period in the past two decades, except for the very short dip that occurred at the onset of Covid-19.

Since the start of 2018, total GTA sales are 9% below the population-adjusted long-term average. This period reflects the drop that occurred after the stress tests were implemented, the partial rebound that followed, and the recent carnage.



Listings are also constrained (whether measured by new listings or active listings). The sales-to-new-listings ratio (46.1%) remains slightly in “buyers’ market” territory (I calculate that the “balanced market” threshold is 52% for the GTA).



The recent data for both sales and listings show the effects of a sharp drop for discretionary activity, by both buyers and sellers. I expect that there isn’t yet a big increase in non-discretionary listings (sales forced by job loss, unaffordable costs, move-aways, or health issues, including Covid-related). That might develop in the coming months. If so, the likely consequence would be higher numbers of listings, continued weak sales, and greater downward pressure on pricing.

Price Trends

The price data remains murky, with different signals being sent, depending on what measure is used. The average price is being distorted by changes in composition (the types of homes being sold). On the other hand, it appears to me that house price indexes are not fully capturing actual reductions (possibly because of smoothing that is built into the methodologies).

CMHC recently published a report that compares average prices to the House Price Indexes that are generated by CREA. That report concluded that average prices are over-stating price declines (due to changes in composition), and that actual price drops are less severe than the averages suggest. That report can be found here: https://www.cmhc-schl.gc.ca/en/blog/2022/have-house-prices-dropped-as-much-as-we-believe-this-year?utm_medium=newsletter&utm_source=affordable-housing-newsletter&utm_campaign=2022-10-House_Price_Declines_Blog

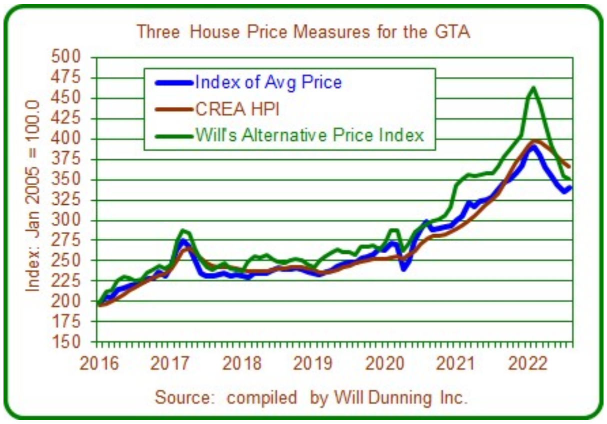
I have drawn the opposite conclusion: that due to composition, price drops in the GTA are actually larger than is shown by the averages, and further that the price indexes might be under-estimating the reductions by even larger amounts.

The basis for my conclusion is that in the GTA sales have shifted toward high-cost options (single-detached and semi-detached homes) and away from lower-cost options (apartments and town homes). For example, for singles, the share was 43.2% in February but rose to 46.3% in September. For apartments, the share was 30.5% in February but fell to 26.1% in September.

As an alternative price measure, I have created my own index (which uses a constant-weight average of the median prices by house type).

As is shown in the next chart, according to the average price there has been a drop of 14.5% since February. The HPI shows a smaller drop

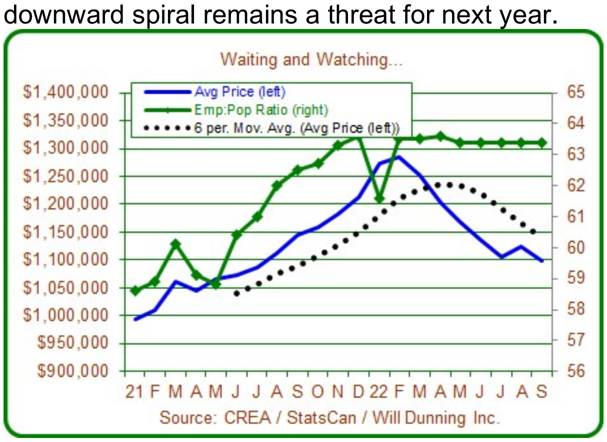
(9.2%). But, my alternative index shows a considerably larger drop (23%). I am aware that my alternative measure has its own limitations, but I am inclined to believe that it comes closer to the truth.



At this time, GTA prices appear to have more-or-less reversed the sharp spike that occurred during late last year and early this year. This is probably a good thing – so far. But, if there are further price reductions, those will start to weigh on consumer confidence and could negatively affect the broader economy. I have some further thoughts on that, in the Canada edition of this report.

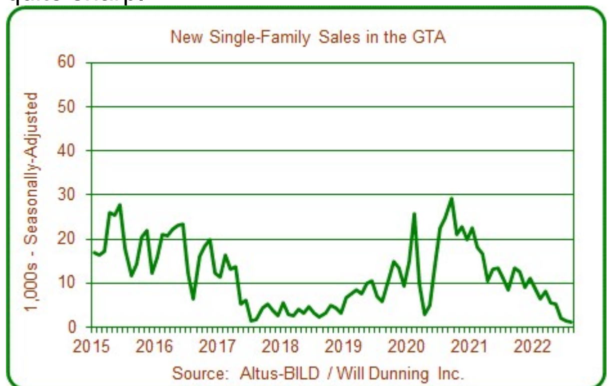
In the Canada edition, I also provide a brief update of my research on the comparative costs of owning versus renting, which concludes that at current interest rates there is a risk (but not a certainty) of substantial further drops in housing prices.

In the June HMD for Toronto, I wrote about what happened in the early 1990s, when a sharp drop in prices caused a severe economic downturn, and there was then a downward spiral that involved the housing market and employment. So far, there is no sign of that (the employment-to-population ratio is flat at a high level). But a downward spiral remains a threat for next year.



New Homes

New homes sales continue a sharp slowdown (the most recent data is as of August). New low-rise sales are at the lowest-ever level (in data that starts in 1981). The reduction for apartment sales was slower to start, but has now also become quite sharp.



Another emerging risk in the housing market is that some buyers of new homes may be unable to obtain the financing they need when the homes are completed (due to unexpected rises in interest rates – future job losses could add to this risk). That became a significant issue that contributed to the price collapse in the early 1990s.

How to Reach Will Dunning Inc.

Email: wdunning@sympatico.ca
Web site: www.wdunning.com
Twitter: @LooseCannonEcon

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.