Housing Market Digest

Greater Toronto Area, September 2020

Synopsis: housing data continues to throw out huge surprises. The data does not give us useful clues about what will happen next.

Employment?

While I'm not sure the employment data for Toronto CMA is reliable, it's the best data we have on the local economic effects of Covid-19. The published data indicates that during February to May, employment fell by about 18%. By August, more than half of the loss (62%) has been recovered, to a level that is 239,000 (6.7%) lower than in February. While the direction is good news, our economy is still seriously impaired.

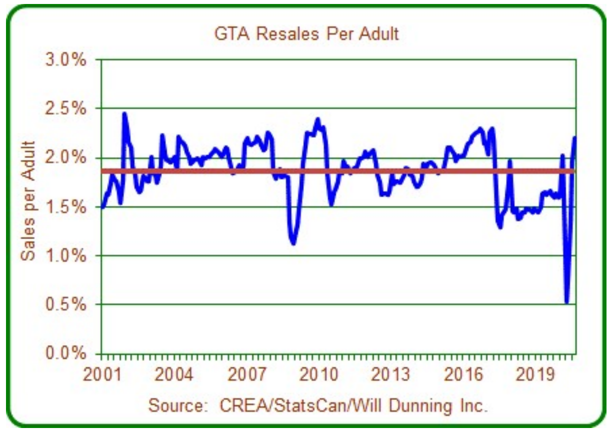
Resale Market

Sales have recovered quite strongly, with four consecutive monthly rises. For August, the rate was 125,600, which exceeds the all-time record of 120,000 that was seen in September 2016.

Reasonable people can disagree on how to interpret the recent data. I see a recovery that has only partially offset the weakness seen during April to June. For the five months from April to August, the average sales rate was 78,000, which is far lower than we would normally expect. Making an adjustment for population growth, the long-term average sales rate is now about 106,000. Sales for the past five months are 27% below the population-adjusted average.

The GTA is currently badly under-performing compared to all of Canada: for Canada, the sales rate for April to August was 12% below the long-term population-adjusted average (versus a much worse 27% for the GTA).

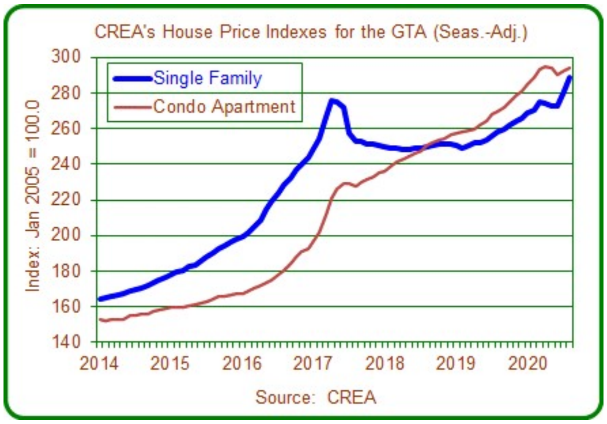
Looking just at August, the sales rate for all of Canada was 26% above average, versus 18% for the GTA.



The flow of new listings into the market has also recovered. The sales-to-new-listings ratio has been erratic. For August, it was just 53.8%, very close to the balanced market threshold of 53%. For the past five months, the average is 57%.

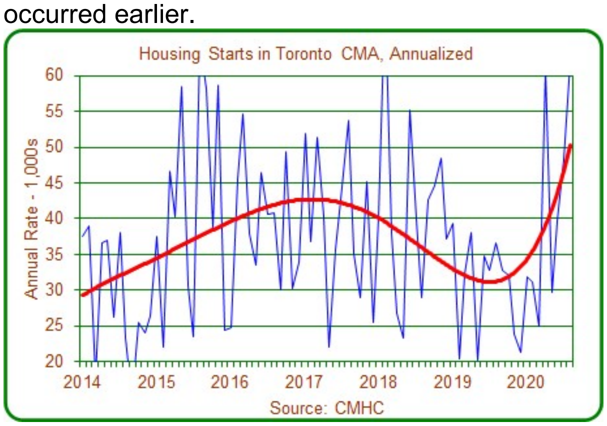
There is, however, an emerging issue of a mismatch between demand and supply: supply is expanding rapidly for apartments at a time when consumer interest is shifting towards low-rise options, and low-rise supply isn't keeping up. During August, the SNLR for low-rises (single-detached, semi-detached, and town homes) was 66% but for condominium apartments the ratio was just 41%. The result is that pricing is currently much stronger for low-rises than for apartments. During the past three months, CREA's price index has jumped by 5.7% for single-detached homes, but is unchanged (0.1%) for apartments.

I commented last month that I have seen quite a few idiosyncratic prices in my neighbourhood. A few months of these mistakes is not systemically important (although the individuals involved may experience regret later). If this persists into late fall, it could create problems.



Housing Starts

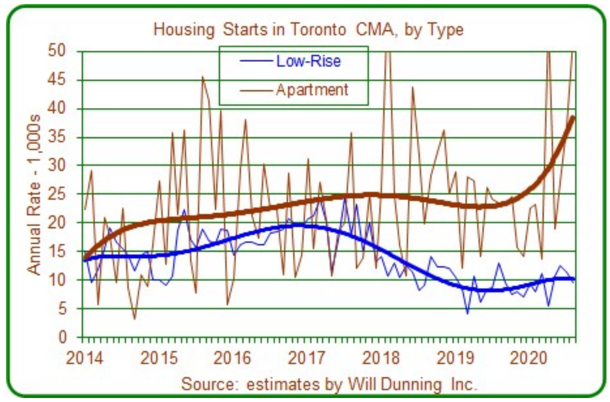
Housing starts (for the Toronto Census Metropolitan Area) remain quite strong. The annualized rate for August (62,000) was far above average (38,000 over the past 10 years), and the average rate for April to August is 48,100. Starts continue to reflect pre-construction sales that occurred earlier.



The rise in starts is mostly for apartments. Even before the onset of Covid-19, it was beginning to appear that the supply pipeline for apartments was too full and that over-supply issues could develop as construction is completed in future. With the added factor that consumer preferences are now shifting away from apartments, it is even more likely that there will be an occupancy shortfall for the future supply of apartments.

On the other hand, the supply of new low-rises has been inadequate for more than a decade, and that situation is likely to worsen during the coming year.

As I noted last month, the data in this chart is unofficial. CMHC publishes data on single-detached versus multiples (which includes a mix of semi-detached, town home, and apartment dwellings). I think low-rise versus apartment is a much more useful division, and therefore I have created the estimates shown here.



Interest Rates

Bond yields remain at extremely low levels. The average yield for 5-year Government of Canada bonds is currently (September 15) in the area of 0.35%. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is 1.95%. Prior to this year, the previous record low was 2.5% during the summer of 2016. For variable rates, my opinion estimate is 1.9%. The mortgage stress tests currently use a rate of 4.79%.

Other News

For Mortgage Professionals Canada, I am writing a series of reports on how consumer attitudes towards home buying and mortgages are changing during the Covid-19 period. The second edition of that report was released on September 14, and can be found on this page: https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports

I'm looking forward to seeing you again.

How to Reach Will Dunning Inc.

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

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