

Housing Market Digest

Greater Toronto Area, October 2021

Economic fundamentals remain very encouraging for housing demand in the GTA. But, lack of supply is inhibiting sales, and we might now be starting another bout of rapid price growth. Some more thoughts on the comparative costs of owning versus renting can be found in an Addendum, available via this page: <https://www.wdunning.com/recent-reports>

A “Natural Experiment” in Canadian Housing Markets

One of the winners of this year’s Nobel prize in economics used a “natural experiment”, comparing two US states, to show that raising the minimum wage did not reduce employment.

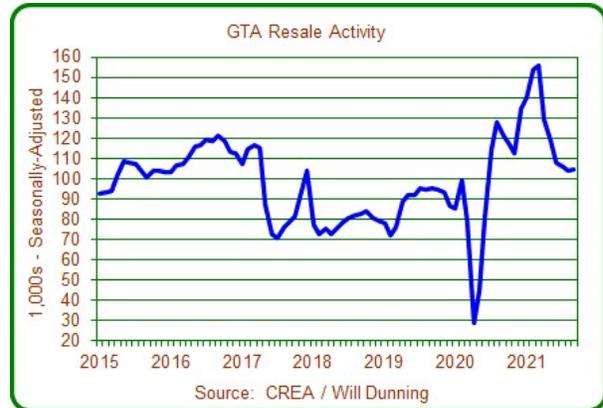
I have my own natural experiment. It shows that home buying in Canada has been persistently lower (proportionally) than in the US since mid-2012. This has happened because 30-year amortization for insured mortgages was removed in July 2012, and further changes to mortgage rules have made it increasingly difficult to buy. The shortfall has been interrupted during the past year, but isn’t that because Covid-19 was so much worse in the US than in Canada? The last three months of data hint that once again, home sales are considerably weaker in Canada than in the US. I’ll keep watching this. (The scaling is based on the fact that Canada’s population is 11% of the US’s.)



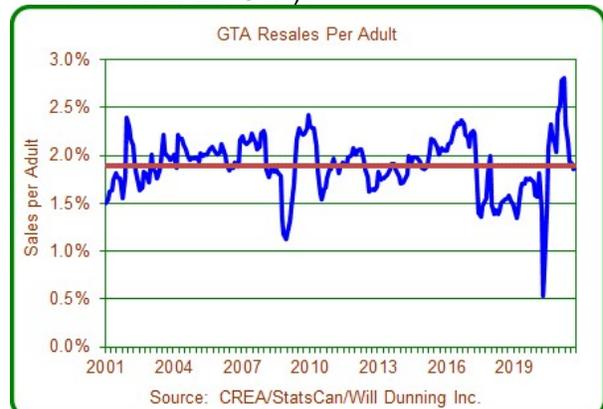
I’m not expecting to get any prizes for this, but I would like us to take more seriously the harm that has been done, when federal government policies are preventing Canadians from making housing choices that they think are in their best interests.

Resale Markets

After 5 months of sliding, sales rose fractionally in September (to an annualized rate of 104,500, based on 9,046 actual sales). Sales in the GTA remain slightly below the population-adjusted long-term average, which I calculate as 105,900.



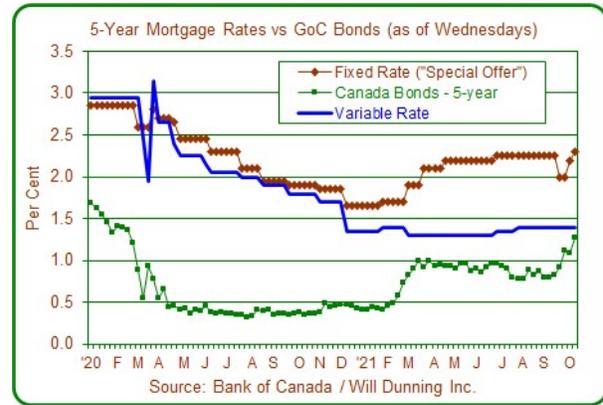
By this measure, sales in the GTA this year have been weaker than for all of Canada (for September, the sales rate for Canada was 9% above the population-adjusted average, versus a small deficit for the GTA).



Supply remains severely constrained. Flows of new listings into the market are inadequate and the inventory of active listings on the market is only about one-half of a normal level. The sales-to-new-listings ratio is too high (77% in September and a 70% average for the past 12 months). This is far above the balanced market threshold for the GTA, which I estimate as 53%.

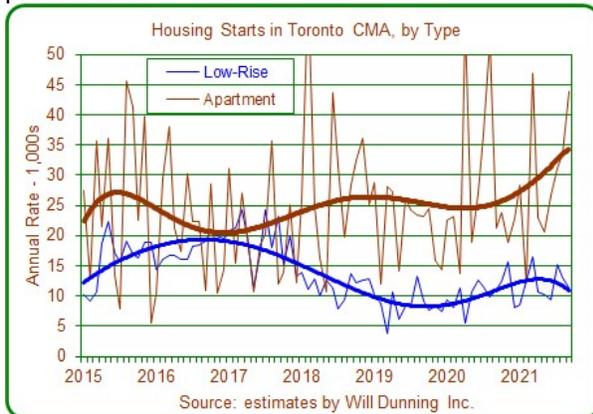
My alternative measures of price growth (see the chart on the next page) for Toronto hint that during the past two months, price growth has resumed for single-detached homes, while condominium pricing has shown less change.

If there was more housing supply in the GTA (especially for low-rises), there would be more sales and less price growth. Two decades of under-producing housing is biting us.



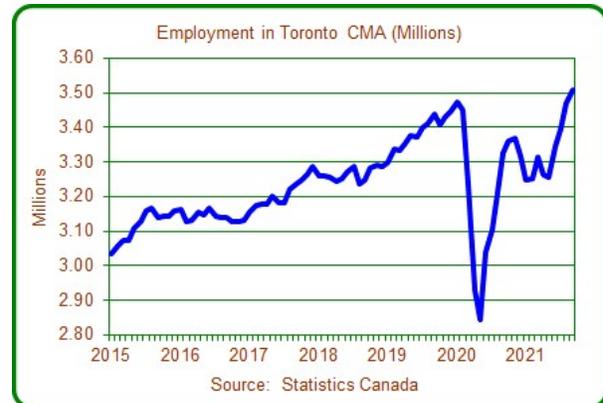
Housing Starts

Housing starts remain quite strong in the Toronto CMA, including an annualized rate of 55,300 for September. But, activity remains highly concentrated on apartments, and low-rise construction is far below requirements. In consequence, I see a risk that as construction is completed on apartments during the coming half decade, that area of the housing market could be over-supplied (resulting in soft rents and selling prices), while the low-rise sector will remain highly pressurized.



Employment

According to Statistics Canada estimates, employment in Toronto CMA has now surpassed the February 2020 level (by 1.7%). While I am always skeptical about large moves in the local employment estimates, this data is still very encouraging for housing demand, especially when low interest rates and reasonable affordability are involved.



Interest Rates

Bond yields have increased sharply during the past month (by almost a half point for 5-year GoCs, to about 1.25-1.3%), but mortgage rates have only partially responded. My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) is 2.3%. Unless bond yields retreat in the near future, rates for fixed-rate mortgage are likely to rise, by as much as a quarter point. For variable rate mortgages, my opinion-estimate is 1.40%.

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