Housing Market Digest

Greater Toronto Area, April 2022

Other News

I will vote for the party that offers the best policies to keep us safe. This must include a promise of mandates for masking, ventilation, and air cleaning (schools, shopping, other indoor public spaces…).

I also worry about the kids: https://twitter.com/LauraMiers/status/1511106591411605508

Resale Market

Sales slowed sharply in March, to an annualized rate of 103,100, which is slightly below the population adjusted long-term average (currently 107,100).

Activity is considerably stronger for all of Canada (March sales were 20% above the population-adjusted average).

I don't have any strong sense of where this is going, but here are some thoughts.

I find the pricing data ambiguous, and I expect that it will be for a while. The average price dropped (by 2.6%) compared to the prior month, but was up by 18% year-over-year. But, the average price data can be distorted by changes in composition. Meanwhile, CREA's house price index is sending different signals (up by 1.8% versus February and 35% YoY). The calculation of CREA's indexes involves some smoothing and therefore there can be some delay in catching changes in the trends. One of my alternative measures of prices (shown in the next chart) suggests that prices fell by 4.5% for the month, but are up by 24% versus a year ago.

Affordability was a positive factor up to the middle of last year, but the combination of sharp rises in interest rates and prices has resulted in a sharp deterioration, and especially during the opening months of this year. The sales data for March is consistent with this, and is suggestive that there will be further slowing of sales in the coming months, potentially leading to some price reductions.

I think it would be healthy for prices to fall back to the same level as mid-2021, but (as Napolean might have learned from his adventures in Russia) retreats can be awfully hard to manage, and often turn out a lot worse than expected. The concern of course is that falling housing prices are very hard on consumer confidence, which can result in severe economic consequences: reversing 6-9 months of price growth would affect only a small number of people (while it would be very hard for them, the overall economic impact would be limited). But, a larger price drop would be increasingly risky. At this point, it is unfortunate that the Bank of Canada didn't raise its policy rate last summer.

As I discuss in more detail in the Canada edition of HMD, I believe that interest rates have now overshot where they should be.

It appears that the supply situation has improved: flows of new listings into the market have increased. With the slowing of sales, the sales-to-new-listings ratio has dropped quite sharply, to just 58% as of March. The ratio is now a lot closer to the balanced market threshold of 53%.

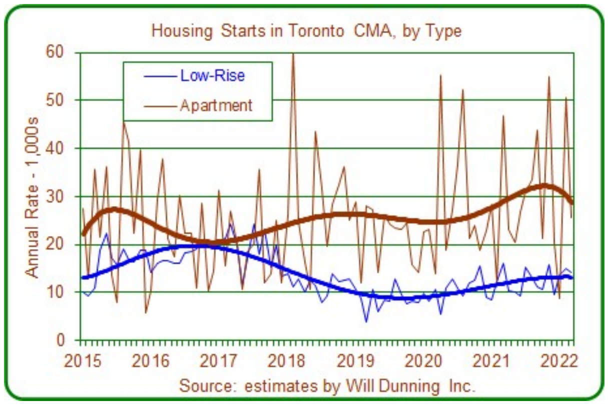
There has also been some improvement in the inventory of active listings. However, I wonder about the quality of that inventory – in my neighbourhood, everything that is priced properly is selling rapidly; the available listings have ridiculous list prices.

I doubt that we will see a large improvement in listings: thinking about my own situation, I'm really not keen to have strangers breathing in my home. The cost of selling and buying something else (realty fees, taxes, moving costs, etc. are close to 10% within the City and 8% elsewhere) is another major impediment.

Meanwhile, the Toronto area remains very substantially under-supplied in terms of the total housing inventory. During the coming year, price movements are going to be determined by a very interesting interplay between two opposing forces – the depressive effect of the sharp deterioration of affordability versus the difficulties people face in meeting their housing needs, and the financial challenges that some home buyers are willing to accept.

I'm working on a new report, which looks at the supply situation across Canada, using several different methods. This is interesting to me, but I don't know if there is an audience for more analysis of this. Plus, I don't have a client for it. So, I haven't decided if I'm actually going to publish it. The new numbers tell me once again that the GTA is extremely under-supplied.

New construction remains very strong for apartments, but is extremely deficient for low-rise housing. In order to meet the needs arising from population growth, low-rise starts within the Toronto CMA should exceed 30,000 units per year, while the demographic requirement for apartments is in the area of 20,000, for a total above 50,000. In order to address the existing supply deficit (over a 10 to 15 year period), there is a need for at least 20,000 additional units per year, most of this should be low-rise (or family-friendly apartments). This results in a total need for more than 70,000 units per year. But, the recent trend for total starts is in the low-40,000s. Based on sales data reported recently by Altus Group and BILD, the trend for total starts is unlikely to change materially during the coming year, although we should expect that there will be further growth of apartment starts, and a further decline of low-rise starts.



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