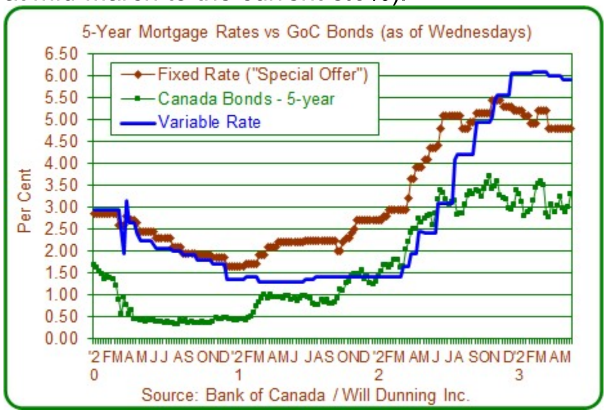
Housing Market Digest

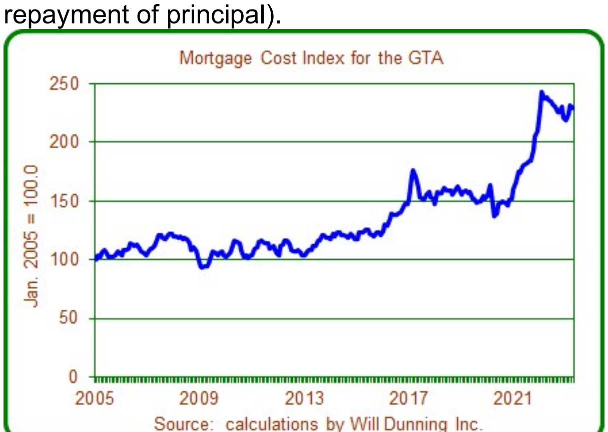
Greater Toronto Area, May 2023

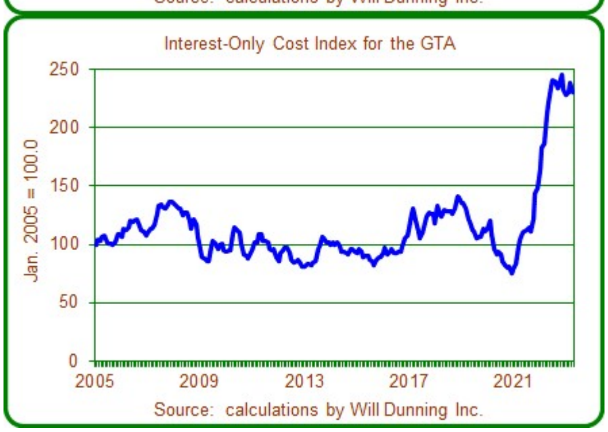
Interest Rates

My opinion-estimate for the 5-year fixed rate was reduced in late March (from 5.2% to 4.8%). The variable rate was also reduced slightly (from 6.1% at mid-March to the current 5.9%).



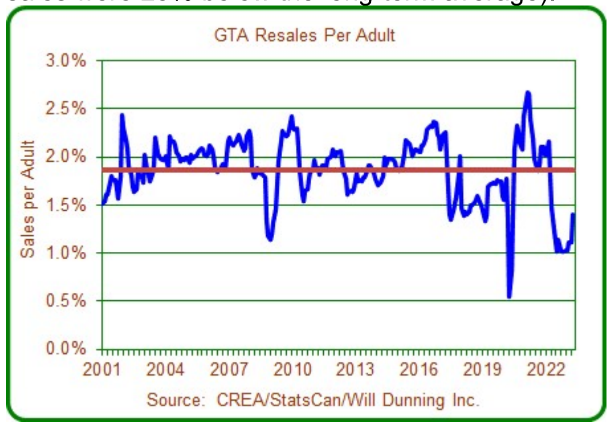
Consequently, affordability has improved slightly, from extremely bad, to extremely bad (increased prices have offset the effect of lower interest rates). I'm showing two affordability indexes, the first based on total mortgage payments, and the second based on the interest cost (netting-out the part of the payment that is forced saving via repayment of principal).





Resale Market

The sales rate leaped in April, to an annualized 81,100. This was 35% higher than the average seen over the prior six months. Looking at the data on a population-adjusted basis, the sale rate has improved from extremely weak, to very weak (April sales were 25% below the long-term average).



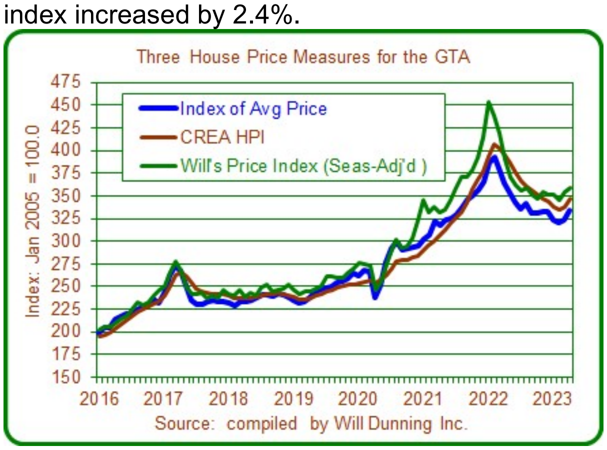
Commentary is increasingly bullish. One argument is that because interest rates seem to have peaked, people are keen to get back into the market. I'm skeptical:

- About 1,750 additional households bought in April (the monthly seasonally-adjusted figure was 6,760, versus 5,020 during the prior six months). In a market area with 2.3 million households, this one-month change is tiny.
- The flow of listings into the market remains very low, indicating that few existing owners are planning to move.
- Lower interest rates have resulted in a small increase in the numbers of people who can afford to buy. Sometimes in the past, drops in interest rates have resulted in short-lived spikes in sales – this might be one of those times.
- As noted above, affordability remains extremely bad. There is anecdotal commentary that a lot of April's buyers paid cash (don't need mortgages). But, in a normal year, about 5% of buyers don't need mortgages. I expect that the pool of potential cash buyers is very small, and won't support sustained growth in sales.
- Most significantly, there is a lot of hype in the commentary: this may have caused some FOMO.
- This is early days in the economic adjustment to high interest rates. The Bank of Canada's "policy rate" did not rise above the neutral level (2.5%) until September. We are only now starting to see economic consequences (in the Canada edition, I explore the evolving downturn in housing construction). During the second half of this

year, we will start to get a sense of impacts within the broad economy, and whether these will weigh on housing activity - will there be more weakness for sales and increased flows of new listings into the market?

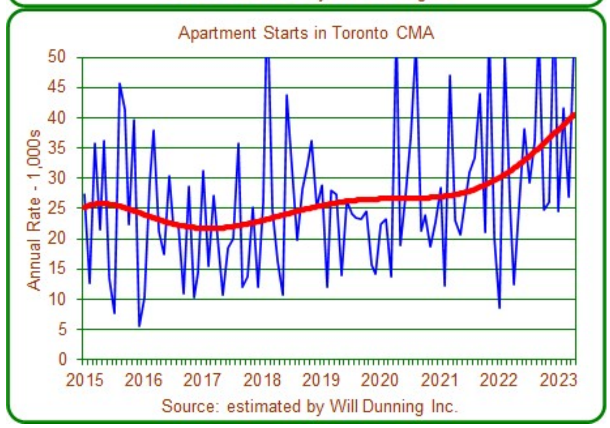
The combination of a jump in sales with an inadequate supply of listings drove the sales-to-new-listings ratio to 78% (versus the 52% threshold for a balance market).

There was a large rise in the average price in April ($45,000, or 4.0%, versus March). This is partly a normal seasonal event. More significantly, the average was distorted by a change in composition (single-detached homes accounted for a larger share of April's sales). My alternative price index (which adjusts for seasonality and composition) increased by 1.1% (which is still notable). CREA's index increased by 2.4%.



Housing Starts

For low-rise dwellings, the trend for starts is now down by about one-quarter versus a year ago. Based on the new home sales data published by BILD and Altus Group, that downtrend will continue. On the other hand, apartment starts remain very strong. As I've noted previously, due to the long pre-construction processes for apartments, we probably won't see the downturn for apartment starts until next year.



Employment impacts from the low-rise sector (and renovations) will start to show up during the second half of this year, and effects for apartments will start much later. As I've commented previously, by late next year, GTA employment related to housing construction (on site, and in industries that provide goods and services to the process) could be 50,000 lower than at present. (For all of Canada, the impact might be about 250,000 jobs.) Other economic sectors will have their own impacts from interest rates.

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