

Housing Market Digest

Greater Toronto Area, April 2024

A Few Quick Thoughts on the Federal Plan

The policy announcement does a decent job of consolidating suggestions that have been made over the years. I see some gaps.

The supply-side policies won't result in new available housing for some time. During the next three years, the outcomes will be determined mostly by population growth. I'm not convinced that the federal plan to reduce the number of non-permanent residents goes far enough to improve the housing situation (since there are still very high targets for growth via permanent residents). See the Canada edition of HMD.

There's nothing in the plan about the Bank of Canada and OSFI, which are impeding new supply. I'll continue to work on this.

The biggest issues are with the municipalities that are density-phobic. The federal response is trying to use financial incentives. That will help (a bit).

The provinces control the rule books that the municipalities follow. The provinces need to drive supply-positive changes in the municipalities' decisions.

There is mention of federal funding of infrastructure, but I'm not sure it goes far enough: fees and charges that are used to finance infrastructure should be eliminated entirely and replaced with debt funding (serviced out of property taxes). I've written frequently about this, that the charges force increases in prices in the entire housing stock, not just for new homes (and this is one of the causes of the supply shortages).

The proposal to increase the depreciation rate for new rentals to 10% is more generous than it needs to be. The bigger opportunity is allowing depreciation to reduce taxes on income from other sources (this might be coming, but the details will matter). This could attract new investors into new investment vehicles. That can happen at a 5% depreciation rate. I wrote about this here:

<https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-three-steps-toward-more-rental-housing/>

and on pages 15-18 of my "7 Short Essays":

<https://www.wdunning.com/recent-reports>

About the 30-year amortization period for first-time buyers: the limitation to new builds will blunt the impact.

Superficially, it looks like a good move to boost construction. But, most first-time buys are existing, from an owner-occupant who is moving or an investor (especially for condos). Those sales set off chains of moves that often end with new construction.

There is a good analogy to used versus new cars: young people (especially students) buy used cars because they're less expensive.

The more effective way to promote construction is to support more entry at the bottom of the market, which will create pressure that promotes new building. Yes, that adds to price pressure, but that's how the market works. Remember your 1st econ class? Supply curves slope upwards.

Very few FTBs buy new, and 30-year amortization for new homes won't change that. Besides, what happens to starts will be dominated by the heavy weight of the Bank of Canada's interest rate policy (and the mortgage stress tests).

The amount that can be taken out of RRSPs (via the Home Buyers' Plan) is being increased to \$60,000 from the current \$35,000. I've never been convinced that the HBP actually makes a difference (yes, people use it, but does it actually result in more buying?). It doesn't really reduce monthly costs, since the amounts that need to be repaid to the RRSP are about equal to what the mortgage payment would be on the HBP amount. The change that allows a 3-year grace period for repayment might have a small impact.

CMHC mortgage insurance is still unjustifiably expensive (given the huge amounts of profits it's making).

I really like the proposal to unlock government-owned lands. I'd also like to see conversion of federal buildings to housing (supported by a commitment to more remote work): this is probably the fastest option to create new housing supply (it will also reduce GHG emissions and health costs).

Will the \$20 million for housing data include doing CMHC's rental market survey quarterly (not just one time per year)?

I'm not convinced that the "financialization" discussion will produce anything that actually improves the housing situation. For a start, if a policy restricts buying, the impact on total housing supply can't be positive, only negative.

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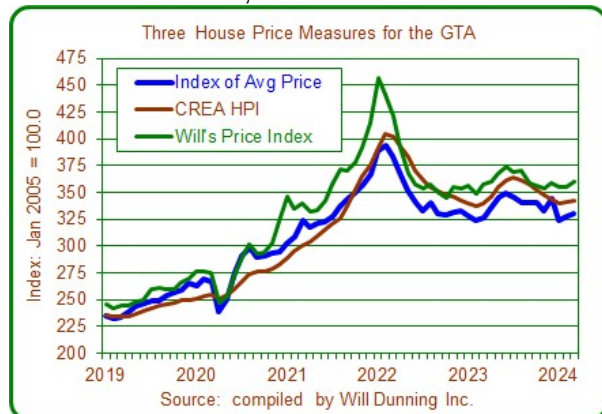
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Resale Market

The seasonally-adjusted sales rate fell slightly in March, to 68,200. On a population-adjusted basis, this is 38% below average (Toronto is much more interest rate sensitive than for all of Canada, which is currently 17% below average).



Inventories are also below their population-adjusted averages, by 25% for flows of new listings into the market and 44% for the inventory of active listings. The sales-to-new-listings ratio (48% in March) remains below the balanced market threshold of 52%. The price data shows random movements, without a clear direction.

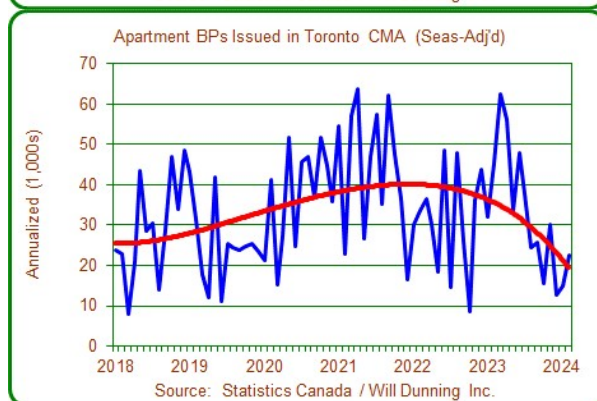
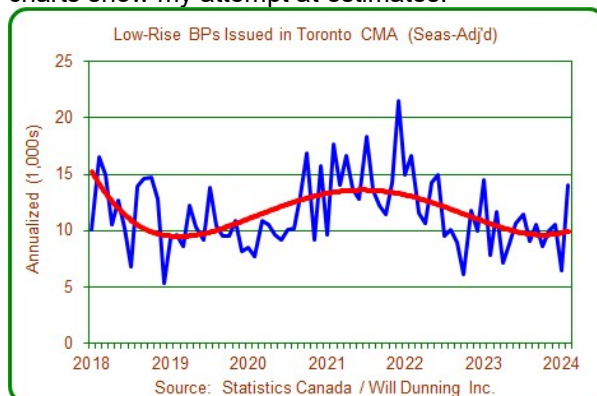


Housing Starts

Housing starts fell in March, to an annualized rate of 42,000. Single-detached starts responded fairly quickly to high interest rates (the total for the past 12 months is extremely low, at just 4,331 units). Apartment starts haven't yet turned.

Data on building permit approvals and new home sales both point to a substantial reduction in starts for apartments, to an annualized rate less than 20,000, versus more than 30,000 per year during 2021 to 2023. Eventually, total starts will fall to an annualized rate of about 30,000 (or even lower).

Statistics Canada doesn't produce seasonally adjusted data for building permits in CMAs. These charts show my attempt at estimates.



This is connected to my narrative that Statistics Canada is producing incorrect data on investment in residential construction, and this is distorting the discussion about the broader economy (GDP, etc.). While StatsCan's investment estimates show a large decline, data on housing starts and inventories under construction, and employment in construction, show continued strength. A downturn is coming for employment in construction, but the timing is uncertain and it will be quite gradual. Eventually, it will become large enough to seriously weigh on the broader economy.

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