

Housing Market Digest

Greater Toronto Area, November 2024

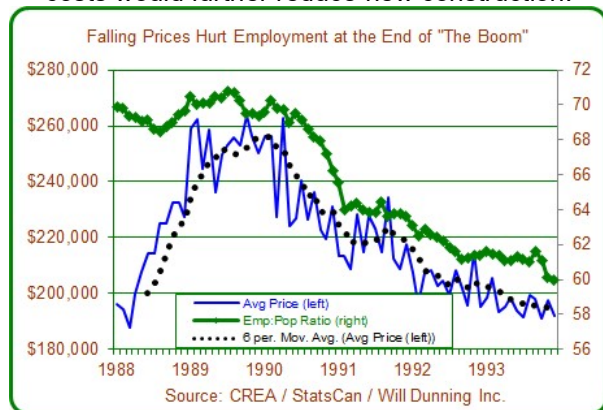
Other News

A new report on the housing market outlook for Ontario is available on this page.

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

The main conclusions are:

- Current pricing in the resale and new homes markets reflects interest rates that existed prior to 2022.
- In consequence, affordability is dreadful, resulting in sharply lower sales of resale and new homes.
- However, the data on new construction is ambiguous. A significant downturn for starts is very likely to occur – eventually. The housing shortages will get worse.
- Employment in construction will fall gradually, over a long period, causing a large total drop.
- Recovery of new and resale homes requires some combination of sharply lower interest rates and reductions in the cost of building.
- Two components of costs are extremely challenging: government-imposed-costs and land prices. Since there is no certainty that costs can be reduced by meaningful amounts, the work needs to be done mainly by interest rates (to the area of 3%, which isn't expected).
- The alternative is sharply reduced house prices, which would very likely have devastating consequences for the economy and the financial system – as was seen during the first half of the 1990s. Anyway, a reduction in attainable prices without a large reduction in costs would further reduce new construction.

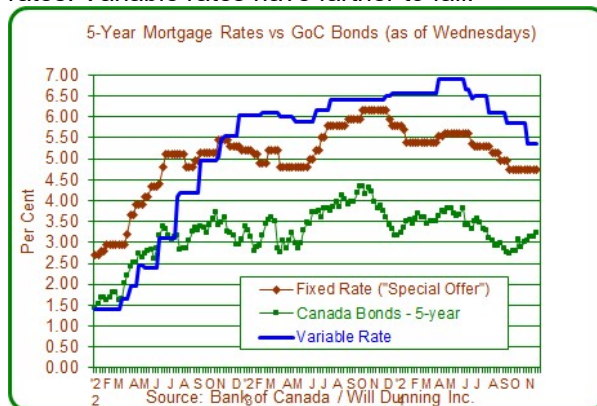


While doing this report, I rediscovered a report I wrote in early 2012, on the emerging housing supply shortage in the GTA. Apparently, I've been writing about this for more than a decade.

The land market is very important in the housing crisis (actually, it might be the most important issue), but we aren't talking about it.

Interest Rates

Bond yields have reversed direction. The spread between bonds and fixed mortgage rates has contracted to a below-average level (1.50 points). There is a possibility of higher fixed mortgage rates. Variable rates have farther to fall.



Resale Activity

Resale activity showed the impact of lower interest rates in October. The annualized sale rate (76,700) was 14% higher than in September. But, this was still very far (32%) below the population-adjusted long-term average (for all of Canada, the shortfall is 10%).

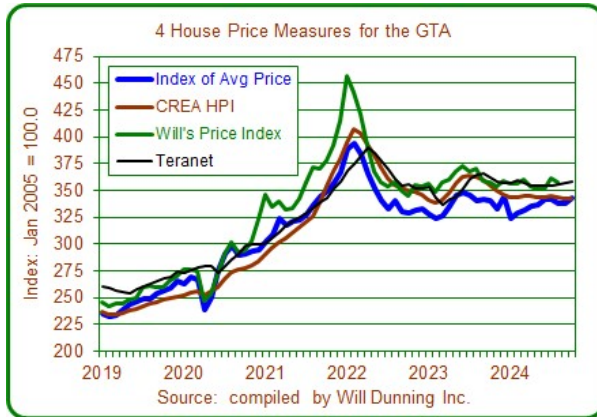


The flow of new listings into the market was reduced. Consequently, the sales-to-new-listings ratio jumped from 37% in September to 45% in October. This is still far below the balanced market threshold of 52%).

The average price rose, but I see this as mostly noise in the data (the share of singles jumped, and this biased the average). Available measures of prices remain essentially flat. As I've commented many times, few owners are being forced to sell involuntarily. The future for prices depends largely on the employment situation.

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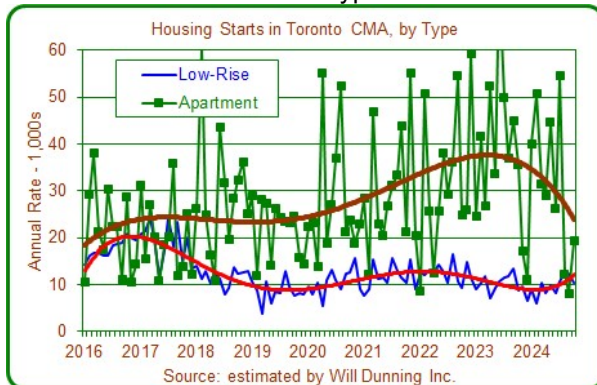
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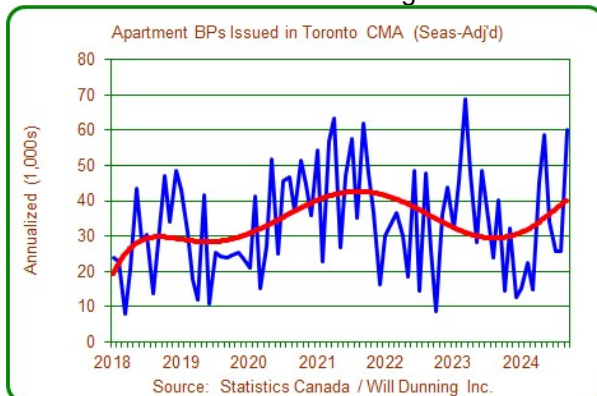
New Construction

There is a lot of commentary about a sharp drop in housing starts for Toronto CMA. Some observations:

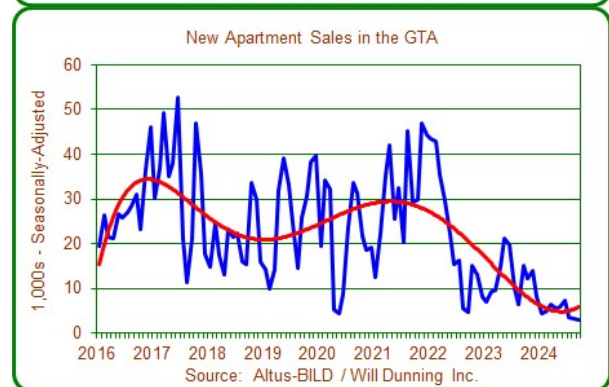
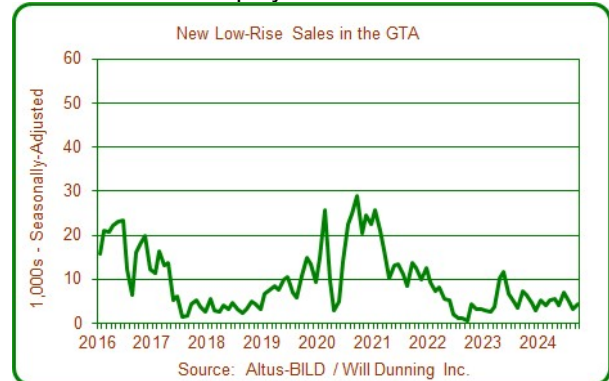
- There has been a sharp drop in the trend for apartments, which has brought a corresponding reduction in starts for all types.



- But, there is a lot of noise in this data, and there is uncertainty about the true trend.
- Recent starts data has been influenced by a lull in building permit issuance early this year. There has been a rebound of permit volumes. Therefore, we might see a corresponding rebound for starts in the coming months.



- Meanwhile, new home sales (as reported by Altus and BILD) remain very weak. During the first nine months of this year, the average sales rate was extremely low, at just 10,000 units (annualized) per month, including 5,000 each for low-rises and apartments). Building permits and starts for apartments aren't yet reflecting the sales. It seems likely that at some point there will be a very sharp drop in starts, which will be followed by a quite gradual downturn in construction employment.



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