

# Housing Market Digest

Greater Toronto Area, November 2020

**Synopsis: the very rapid onset and the severity of the second wave are bringing further uncertainty about the outlook for the economy and the housing market.**

## Employment?

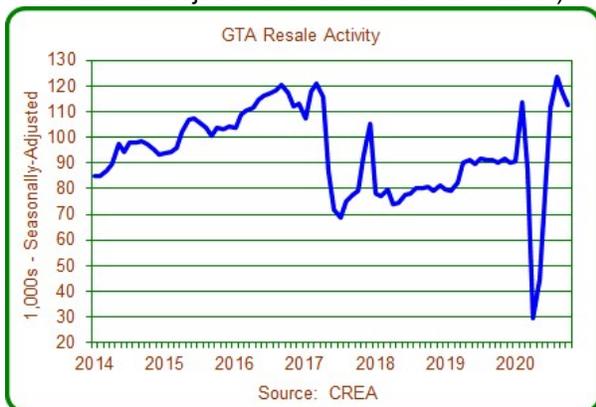
Statistics Canada estimates that Toronto CMA has regained 87% of the job losses that happened during February to May. As of October, employment is estimated to be 84,000 (2.4%) lower than in February. For all of Canada, the shortfall is a bit worse (3.3%).

As you know, Covid-19 is accelerating in the GTA and Ontario, across Canada, and around the world (this chart includes data up to November 19). We also need to be concerned about a second wave of economic damage. The total infection rate (per million people) in Ontario is considerably less bad than in the US (about one-fifth).

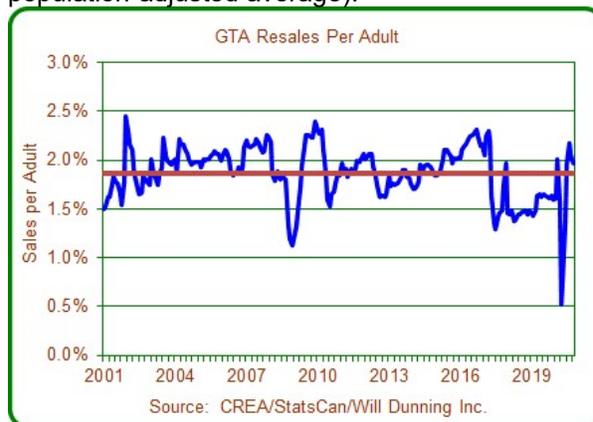


## Resale Market

Sales in the GTA were quite strong in October, for the fourth consecutive month. (While the seasonally-adjusted estimates show September and October as lower than August, I suspect that the seasonal-adjustment was too conservative.)



Making an adjustment for population growth, the long-term average sales rate is now about 106,000. Looking at the entire Covid-19 period (since April), the average is 88,000, which is 17% below the long-term population-adjusted average. On this basis, the GTA is under-performing compared to Canada (the national sales rate for April to October is 1% below the long-term population-adjusted average).

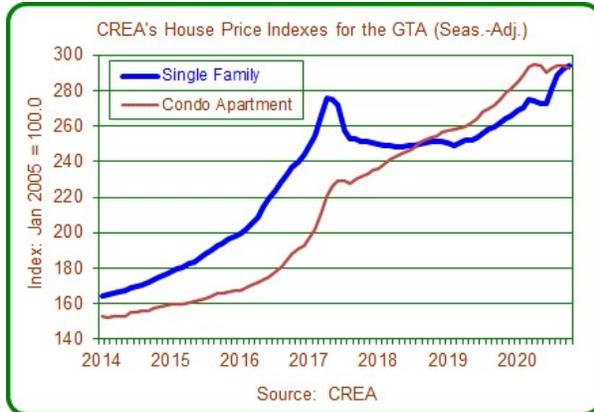


New listings have also increased. The result is that the sales-to-new-listings ratio (60% in October) is similar to the long-term average. For April to October the average is 58.7%. The SNLR remains well above the balanced market threshold of 53%.



Tight market conditions are once again resulting in rapid price growth. During the past four months, CREA's price index for the GTA has jumped by 4.9%, which equates to an annualized growth rate of 15%. There is an increasingly sharp difference between single-detached homes (up by 7.9% during the past four months) versus condo apartments (essentially flat). Demand is shifting away from apartments towards low-rise housing

options at the same time as new construction is causing rapid growth in the supply of apartments. The recent estimates hint that growth is slowing for low-rises homes. However, given the volatility in the price data (and in my neighbourhood, I'm seeing a lot of idiosyncratic pricing) it must be very difficult to estimate these indexes at present.



### Housing Starts

Housing starts (for the Toronto Census Metropolitan Area) increased slightly in October, but the annualized rate was just 36,200. For April to October, the average rate (44,300) is reasonable.



There is a big problem with the mix of housing that is being produced. Apartment starts remain very strong (averaging 33,700 for April to October) Meanwhile, starts of low-rise homes (10,700 for April to October) are at best only one-half of the required level. On top of this, Covid-19 is causing a shift in consumer preferences away from apartments to low-rise options. We will see continued oversupply of condos and shortages for low-rise homes in the coming months.

### Interest Rates

Very positive news about vaccines resulted in a small rise in bond yields (but the yield for 5-year

Government of Canada bonds is still extremely low, in the area of 0.45%. My opinion-estimate of a typical "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.85%. Prior to this year, the previous record low was 2.5% during the summer of 2016. For variable rates, my opinion estimate is 1.7%. The mortgage stress tests currently use a rate of 4.79%, which is almost 3 points above actual rates and is unduly constraining some well-qualified potential home buyers.



The spread between 5-year fixed rate mortgages versus bonds is currently 1.4 points. This is below the long-term average of 1.8 points, but it is similar to the average of 1.49 points seen last year. The narrow spread reflects that the market is quite competitive.

### Other News

Next Tuesday (the 24th, at 1 pm) I'll be giving a presentation on Canadian housing markets to a virtual conference. Information can be found here: <https://mortgageproscan.ca/events/virtual-mortgage-symposium-2020#day1>

*I'm looking forward to seeing you again.*

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