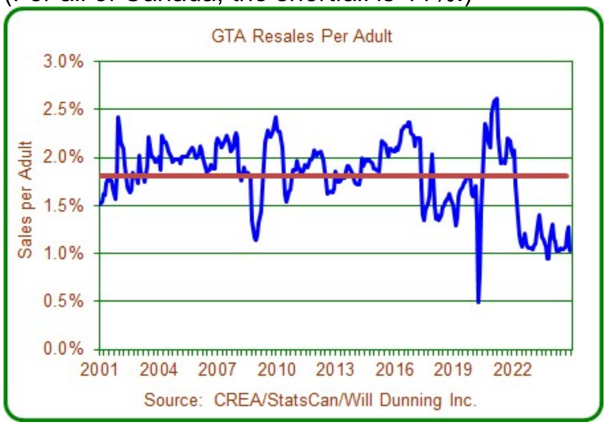
Housing Market Digest

Greater Toronto Area, January 2025

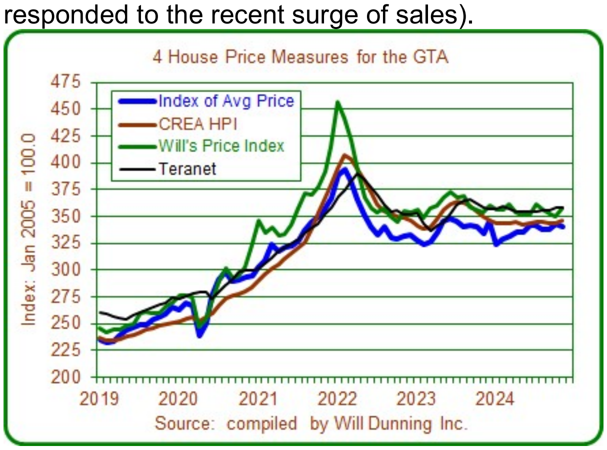
Resale Activity

Sales fell sharply in December, to an annualized rate of 64,300, down 18.7% from 79,100 in November. Following two encouraging months, sales have abruptly returned to the depressed levels seen earlier. December sales were 43% below the long-term population-adjusted average. (For all of Canada, the shortfall is 11%.)

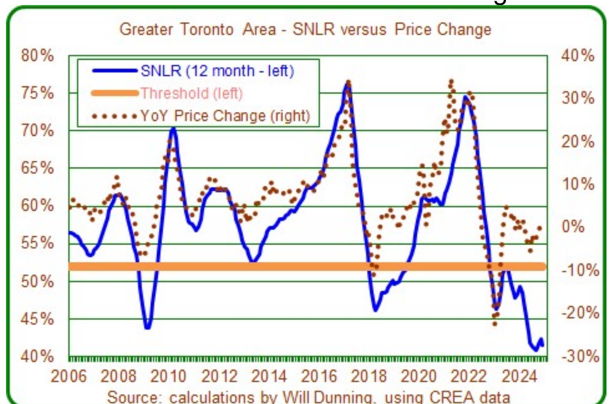


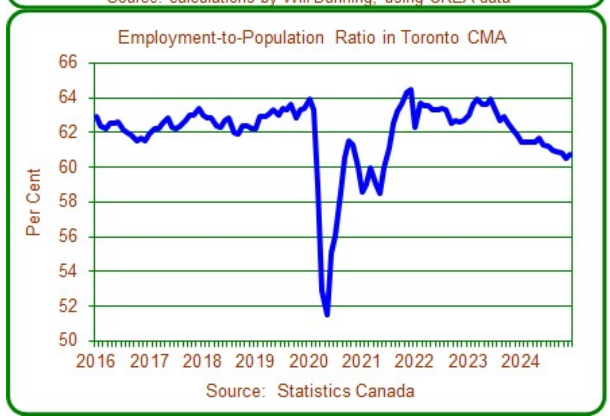
The brief improvement was a short-term reaction to the interest rate reductions that occurred during the summer and fall, and it was to be expected that it would be short-lived. But, the change in December was much more abrupt than I expected. It's likely that sales in December were also affected by weather that was more harsh than usual for the time of year. We shouldn't draw firm conclusions from this data, but it alerts us to the possibility that the GTA resale market might remain quite weak in the near term.

It appears that pricing is still flat in the GTA (unlike the rest of the country, where prices have responded to the recent surge of sales).



For the sales-to-new-listings ratio, recent improvement was also reversed - at just 39% for December, it was once again very far below the balanced market threshold of 52%. Based on the historic relationships, we might have expected that the low SNLR during 2024 could result in significant price reductions. That didn't happen because the employment situation remained reasonably healthy and few home owners were forced to sell due to economic hardship. That said, the employment situation is getting weaker (measured by the employment-to-population ratio), and there are still risks in the GTA housing market.





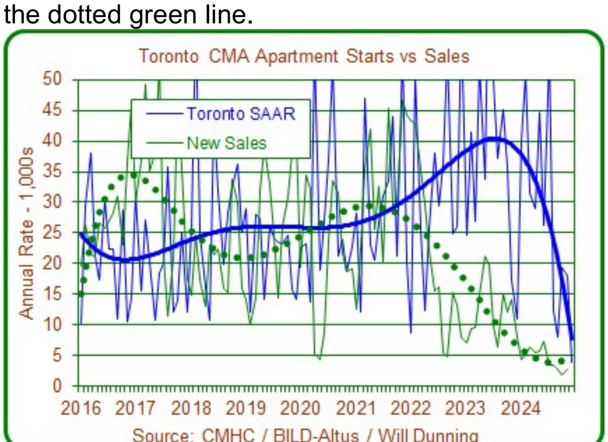
For the full year, sales were slightly better than in 2023 (by 2.7%). There was a larger expansion for listings: new-listings were up by 17% and active listings by 43%. For the full year, the sales-to-new-listings ratio averaged 41% versus 47% in 2023 and 50% in 2022. During the prior decade, the average was 60%. The GTA has shifted from a chronic "sellers' market" condition to a persistent "buyers' market", due to high interest rates in a housing market with very high prices.

Unless interest rates (especially the 5-year fixed rate) fall by a lot (to the area of 3% versus the current typical 4.9% "special offer"), dreadful affordability will continue to result in weak sales, which might eventually cause prices to fall sharply. I can't see rates falling much more, given conditions in the lower cost areas of Canada. Meanwhile, mortgage renewals will continue to weigh on consumer spending and associated employment. This is on top of the economic risks that result from giving the most important job in the world to a person who is extremely mentally ill and astoundingly stupid.

New Construction

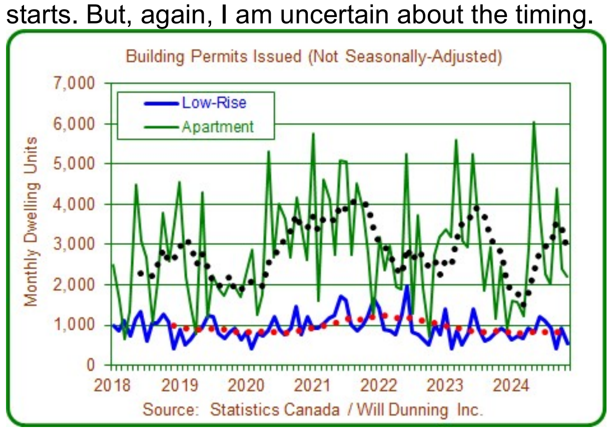
Housing starts in the Toronto CMA have been weak for five consecutive months. Starts of all types of units (and expressed as a seasonally-adjusted annualized rate) have been below 30,000 for each of those five months, and have averaged 22,600 during that period. For apartments, starts have been below 20,000 for each of the five months and have averaged 12,300. It’s tempting to conclude that starts are finally reflecting the effects of too-high interest rates and the very sharp downturn of new home sales, but I’m not ready to draw that conclusion yet.

These charts are complicated and difficult to read, but I find them very useful. In both of them, housing starts are shown by the thin blue line and the trend line is thicker. New home sales, as reported by BILD/Altus and seasonally-adjusted by me, are shown with the green line and the trend is the dotted green line.



In the historic data, starts of low-rise home tend to lag about 1.5-2 years behind sales. For apartments, the lag appears to be about three years. The recent downturn for apartment starts might have begun be a bit too early (about two years after the downturn for sales).

Statistics Canada’s data on building permits shows that there was a large but temporary drop in building permit issuance for apartments during late 2023 and early 2024. That led to the recent drop in apartment starts. Since then, there has been another wave of permits for apartments. It is quite likely that we will see increased apartment starts during the first half of this year. I still believe there will eventually be a very large reduction in apartment construction, but I’m unsure about the timing. I have more to say about this in a new report on the Toronto rental market - available on this page:
https://www.wdunning.com/housing-market-digest
The bottom line in that discussion is that rents (and investors’ expectations about future rents) got too high, resulting in an excessive amount of new construction. That is going to result in an adjustment process that will likely bring a reduction for rents and then reduced apartment starts. But, again, I am uncertain about the timing.



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