

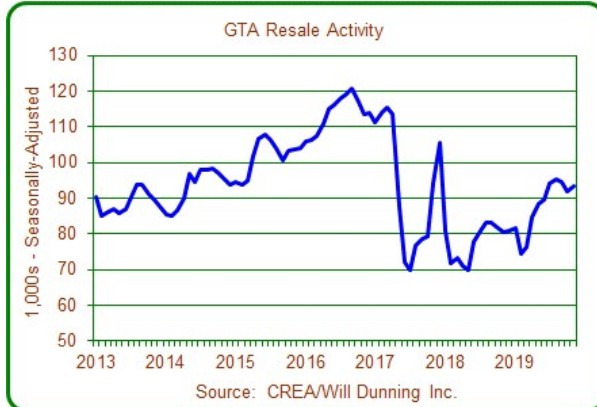
Housing Market Digest

Greater Toronto Area, December 2019

Synopsis: Sales have improved for new and resale homes, but remain much lower than they should be. Inadequate supply is now resulting in price acceleration.

Resale Market

The sales rate has been relatively flat during the past five months, with the annualized rate for November at 93,400.



Sales remain weakened on a per adult basis, and November sales were 13% below average.

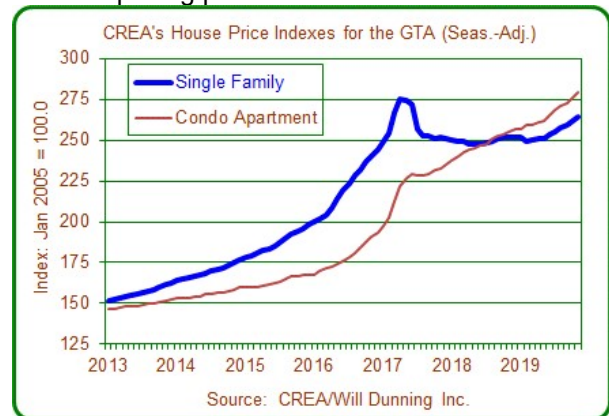


As I've commented before, disappointing sales are largely due to the depressive effects of the mortgage stress tests, but also to a shortage of listings. The sales-to-new-listings ratio is now at 68%, versus a balanced market threshold of 54%.



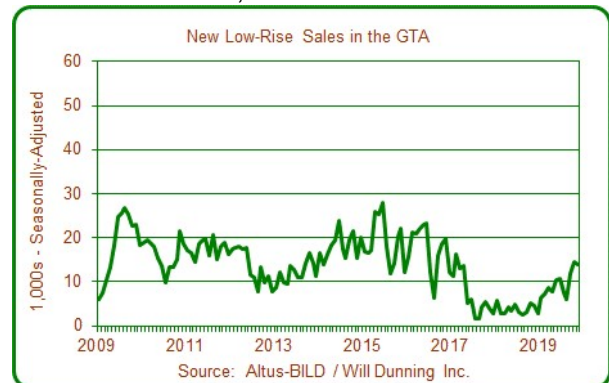
In consequence, price growth is accelerating, with CREA's House Price Index up by 6.5% during the past year (a year ago, the increase was 2.8%). Increases are faster for condo apartments (now at 9.5%) versus 5.0% for single-family homes.

I have noticed that the price trend has been disrupted in my own neighbourhood (south Etobicoke): previously, most sale prices were more-or-less what they should be based on comparables, but very recently there have been more surprising prices.

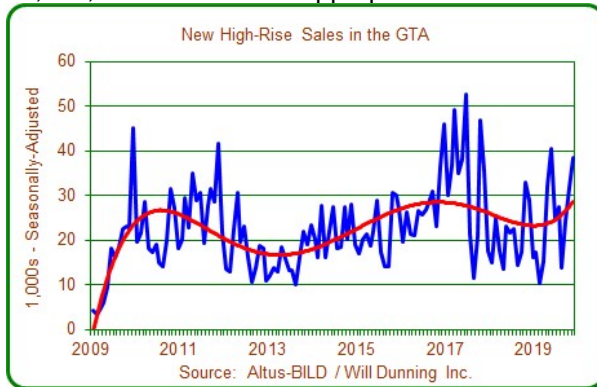


New Homes Market

New home sales increased in November, to the highest annualized rate of the past two years (52,100 – but, during the past 24 months, the average sales rate has been just 28,900). We need several years of strong sales before we start to see any substantive relief in the dire supply situation. Low-rise sales were at 13,800 in November (versus the 24-month average of just 6,300), and remain far lower than is required – which is at least 20,000.



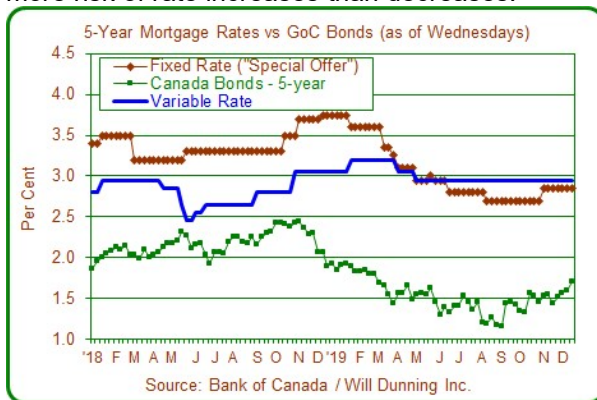
Apartment sales leaped to an annualized rate of 38,300 in November. The 24-month average is 22,600, which I consider appropriate.



Interest Rates

Bond yields have increased this month, and the yield for 5-year Government of Canada bonds is now in the area of 1.65% (given evolving economic conditions, I think they should be in the range of 1.5-1.75%).

My opinion-estimate of major lenders' "special offer" rate (5-year fixed-rate mortgages) is still 2.85%. The spread versus bond yields (now 1.2 point versus a long-term average of 1.8) shows a very competitive marketplace. At this time, there is more risk of rate increases than decreases.



Two Data Concepts for Rent Growth

The two concepts are:

- Changes in rents for all units: this includes units (roughly two-thirds each year) for which there has not been a change in occupancy, and are therefore limited by rent control (1.8% for 2019). For the one-third for which there is a change in occupancy, rents can be reset. This is the concept used in the data from CMHC (and is the basis for my forecasts of rent growth). This data is available only once per year.

- Changes in rents for available units, which are not subject to Ontario's annual rent increase guideline and therefore are currently showing much more rapid rent growth. This data can be generated more frequently, and therefore it is discussed more often. Ben Myers (<https://www.bullpenconsulting.ca/>) produces this data for the GTA and elsewhere in Canada.

Both of these data concepts have their uses (depending on the analysis question) – we just need to be careful to understand which data concept we are using.

CMHC is expected to release its data for 2019 on January 15.

The Outlook

None of my forecasts have been changed.

Toronto Indicators			
	2018	2019	2020
Job Growth	1.9%	3.4%	2.4%
Resales (units)	77,909	83,000	92,400
Sales-to-New-Listings	49.8%	53.3%	54.2%
Ch. in Avg. Resale Price	-4.4%	1.5%	0.3%
GTA New Home Sales			
Low-Rise	3,831	9,500	13,500
High-Rise	21,330	22,000	22,500
Total	25,161	31,500	36,000
Housing Starts (CMA)			
Low-Rise Ownership	11,468	9,300	12,900
Condo Apartment	26,349	17,500	18,900
Rentals	3,290	3,400	2,500
Total	41,107	30,200	34,300
Apt. Vacancy Rate	1.1%	0.9%	0.6%
Rent Increase	5.5%	4.2%	4.5%

Source: forecasts by Will Dunning Inc. (July 29/19)

How to Reach Will Dunning Inc.

Telephone: 416-236-5115
 Email: wdunning@sympatico.ca
 Web site: www.wdunning.com

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2019