

Housing Market Digest

Greater Toronto Area, December 2021

Interest Rates

Mortgage interest rates haven't changed materially during the past month. Bond yields have retreated in the past few days, and are currently where I think they should be (in the area of 1.25%). My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) remains at 2.7%, which I consider a neutral rate and my opinion-estimate for variable rates remains at 1.4%.



Resale Markets

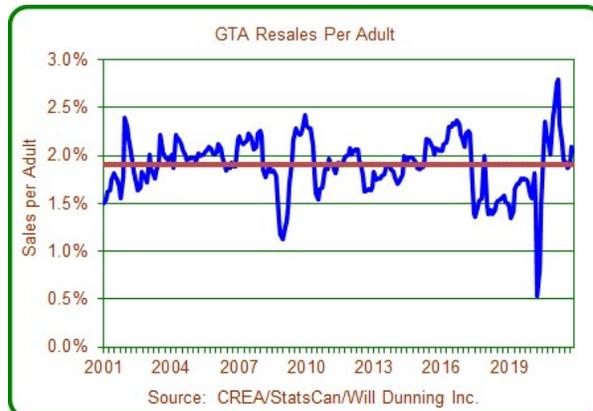
Economic fundamentals remain very favourable for home buying in the GTA. This includes:

- A substantial rebound of employment in the recent past, on top of strong job growth prior to Covid.
- Recent increases in interest rates should be causing a rush into the market to take advantage of time-limited guaranteed rates.
- Changing work arrangements should still be causing movement.

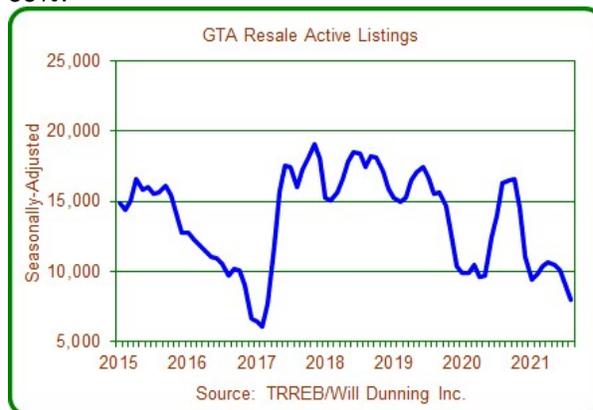
Yet, home sales in the GTA are only moderate. November sales were slightly slower than October's, at an annualized rate of 114,100, based on 9,017 actual sales). This is 7% above the population-adjusted long-term average (106,300).

By contrast, for all of Canada, sales in November were 20% above the long-term (population-adjusted) average.

For the entire period since the start of 2018, the sales rate in the GTA is 7.3% below the long-term population-adjusted average. For all of Canada, actual sales for that period are slightly above the long-term average. Sales in the GTA have been constrained by the mortgage stress tests as well as the inadequacy of supply.



Once again, flows of new listing into the market were insufficient during November (13% below the population-adjusted average). Most new listings sell very quickly, with the result that there are very few active listings available. At the end of November, active listings were 59% below the 10-year average. The sales-to-new-listings ratio was 73% in November (and the average is the same for the past 12 months). By contrast, I estimate that the balanced market threshold for the GTA is 53%.

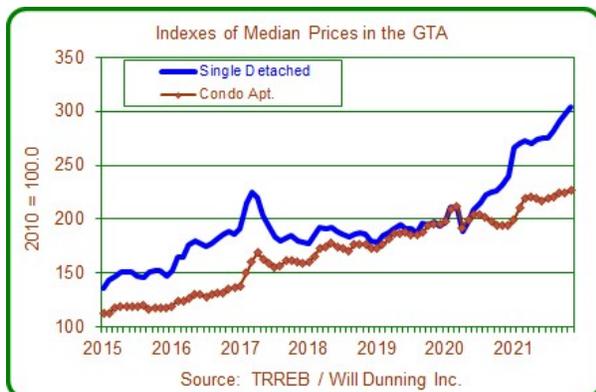


My alternative measure of price growth for Toronto (an index based on median selling prices, by type of dwelling) indicates that prices for single-detached homes have risen very sharply during the past four months, and the year-over-year change is now 31%. For condominium apartments, the year-over-year growth rate is still quite strong (17%). But, most of the increase for condos occurred last winter: during the past six months, the annualized growth rate is 6%.

As I've commented for several months, the discrepancy is partly due to the shift of consumer preferences in the wake of Covid, but also because there has been so much new supply of apartments. Construction of low-rise housing has been inadequate for two decades.

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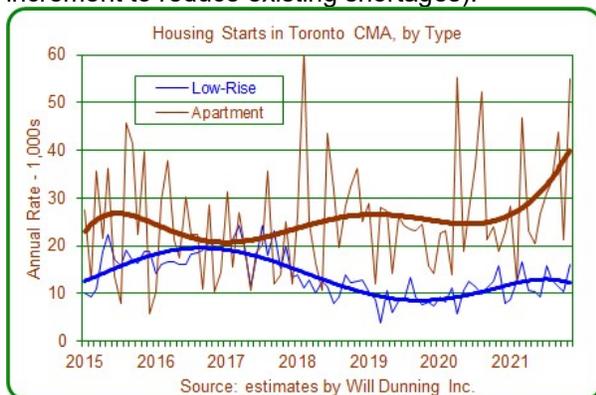


Housing Starts

Housing starts jumped in November, to the second highest monthly rate recorded since 1990 (an annualized rate of 71,100). Interpreting the trend is challenging, because starts have been quite strong in two of the last three months. Apart from that, starts have been only moderate.



The leap in starts for November was largely due to apartments. Low-rise starts are showing minor month-to-month variations, and the trend is far too low (it should exceed 20,000 just to keep up with population growth, and there is a need for a further increment to reduce existing shortages).

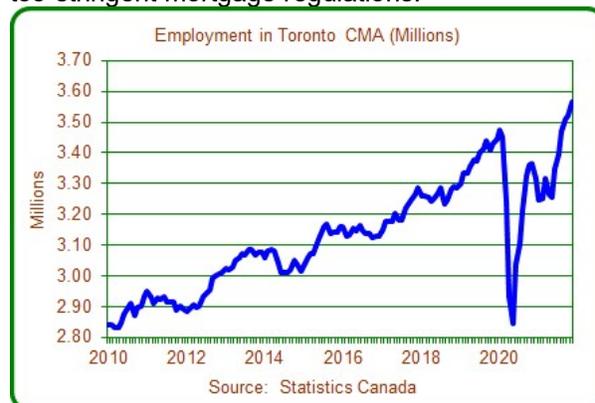


Employment

According to Statistics Canada estimates, the Toronto CMA has seen 6 consecutive months of strong job creation, and total employment is now estimated to be 3.4% above the February 2020 pre-Covid level. Job creation was also very strong in the three years prior to Covid.

The share of adults within the Toronto CMA who have jobs (63.7%) is now at the highest level seen in the past decade.

The employment situation should now be resulting in very strong home buying. Yet, as I discussed earlier, actual activity is currently only moderate. This is partly due to the lack of supply, but it also shows the continuing negative consequence of too-stringent mortgage regulations.



In the Canada edition of HMD for December, there is a short discussion, commenting that because there is uncertainty about how quickly the population is growing, there is also uncertainty about the “true” employment situation.

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