Housing Market Digest

Greater Toronto Area, January 2020

Synopsis: Drops for mortgage rates brought improving sales last spring, but that effect has stalled. Due to inadequate supply, prices are accelerating. I have updated my forecasts.

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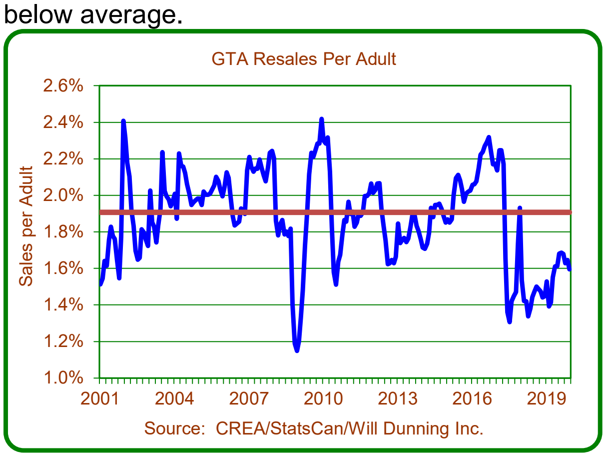
Resale Market

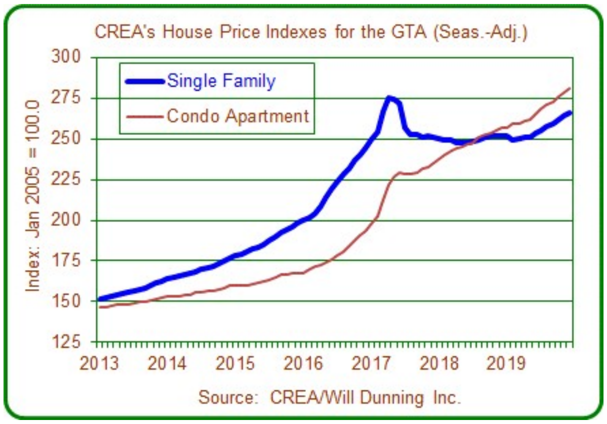
The data is saying more conclusively that the sales recovery that happened during the spring ended during the second half of 2019. The annualized rate for December was 89,800.

On a per adult basis. December sales were 16% below average.



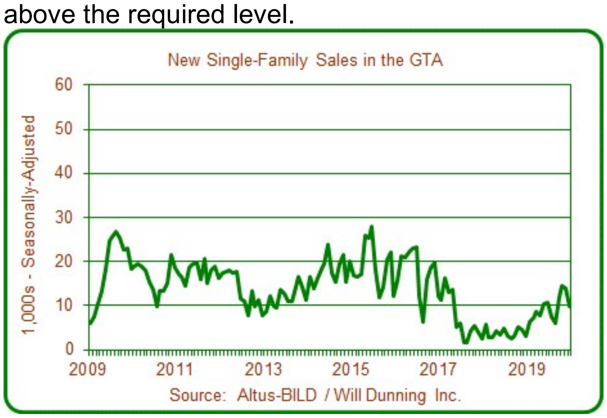
Repeating comments made previously: disappointing sales are largely due to the depressive effects of the mortgage stress tests, but also to a shortage of listings. The sales-to-new-listings ratio is now at 70%, versus a balanced market threshold of 54%.

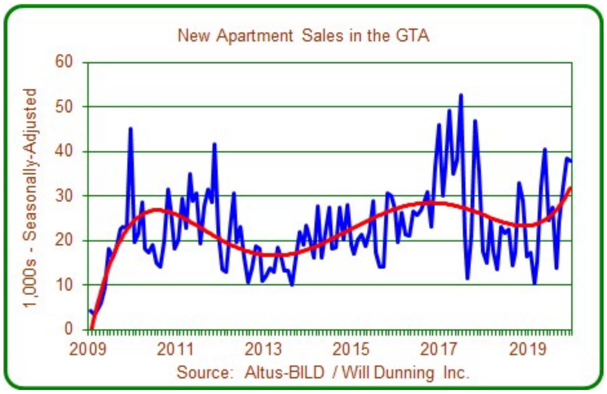
Price growth continues to accelerate. CREA's House Price Index is up by 6.9% during the past year (and, over the past six months the increase has been an annualized rate of 10.8%). The rate of increase for condo apartments is 9.4% (12% over the past half year). For single-family homes the year-over-year rate is 5.6% (but 10.5% over the past six months).



New Homes Market

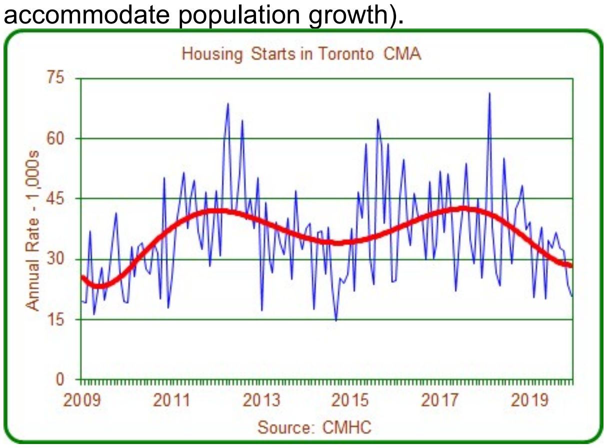
New home sales were at a healthy level in December, at an annualized rate of 47,700. But, once again, single-family activity was far too low, at a rate of just 9,800. Apartment activity was very strong, at a rate of 37,900. For the year, total sales of 36,471 were too low by at least 10,000 units. The shortfall was entirely for single-family homes (9,523) while apartments (26,948) were at or above the required level.





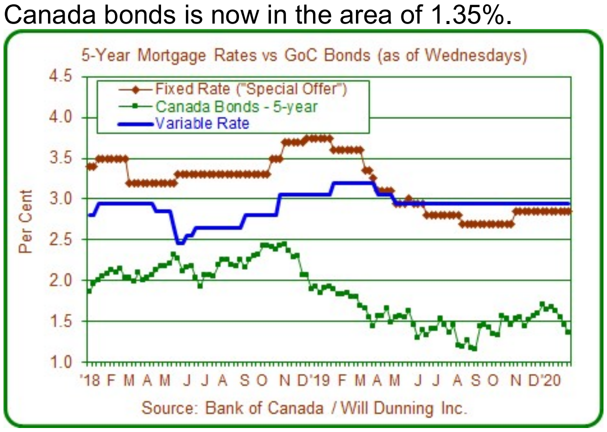
Housing Starts

Starts in the Toronto CMA totaled just 30,462 during 2019 (but at least 45,000 are required to accommodate population growth).



Interest Rates

Bond yields were comfortably within the range that I think is appropriate to economic conditions (1.5-1.75%). But they have plunged in the past few days, in response to the uncertainty around the coronavirus. The yield for 5-year Government of Canada bonds is now in the area of 1.35%.



My opinion-estimate of major lenders' "special offer" rate (5-year fixed-rate mortgages) is still 2.85%. The spread versus bond yields has widened, to about 1.5 point, but is still well below the long-term average of 1.8.

The Outlook

Forecasts have been updated.

- Resale activity may increase, due to continued low interest rates, and partly due to FOMO. Sales will be much weaker than they should be.
- Inadequate volumes of new listings will result in rapid price growth.
- The forecast for new low-rise sales assumes that more supply will be available, but that is uncertain. Based on the fundamentals, low-rise sales should be in the area of 25,000-30,000.
- The forecast of condo sales assumes that investors will continue to ignore the large volume of supply under construction.
- Total housing starts will be far below the requirement (at last 45,000).
- Inadequate new total housing supply will cause lower vacancies, with rapid rent growth.
- My forecasts for prices and rents may be too cautious.

Toronto Indicators		
	2019	**2020**
Job Growth	3.9%	1.9%
Resales (units)	88,223	97,000
Sales-to-New-Listings	57.8%	63.5%
Ch. in Avg. Resale Price	3.9%	6.7%
GTA New Home Sales		
Low-Rise	9,523	18,400
High-Rise	26,948	25,200
Total	36,471	43,600
Housing Starts (CMA)		
Low-Rise Ownership	8,515	13,800
Ownership Apartment	17,857	19,800
Rentals	4,090	2,500
Total	30,462	36,100
Apt. Vacancy Rate	1.5%	0.9%
Rent Increase	6.5%	4.5%
Source: forecasts by Will Dunning Inc. (Jan. 30/20)		

How to Reach Will Dunning Inc.

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

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