Housing Market Digest

Greater Toronto Area, December 2022

OSFI Stress Test

"Today, the Office of the Superintendent of Financial Institutions (OSFI) announced that the minimum qualifying rate (MQR) for uninsured mortgages will remain the greater of the mortgage contract rate plus 2 per cent or 5.25 per cent."

The press release can be found here: https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/mqr20221215-nr.aspx

That's good news right? No, it's irrelevant. What matters is that buyers will be tested at rates exceeding 7%, and many of us will remain unnecessarily trapped in the over-heated rental sector.

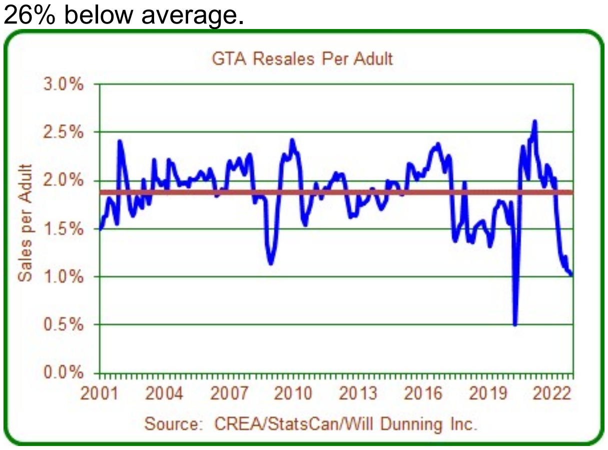
Moreover, there was no change to the draconian and unjustifiable requirement for testing (at the contract rate plus 2 points) of mortgages that are transferred between lenders, which exposes renewing borrowers to the risk that they could be trapped and exploited at their current lender.

I might write a report on this. The theme would be:

- While stress testing is necessary, the design of the tests has added to risks for the economy and the financial system.
- At current interest rates, the risk-increment is being amplified.

Resale Market

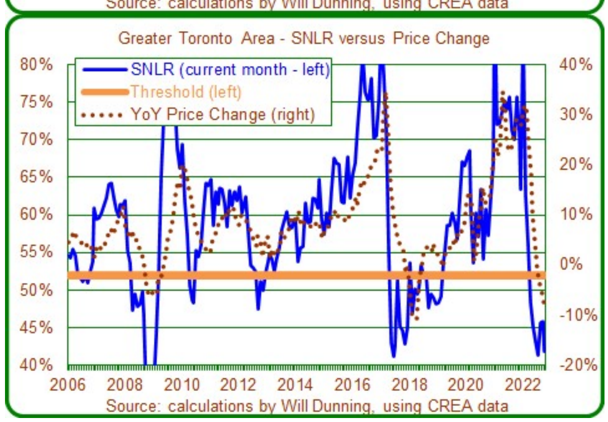
Sales fell again in November, to an annualized rate of 58,600. On a population-adjusted basis, sales in the GTA are 45% below the long-term average. For all of Canada, November sales were 26% below average.



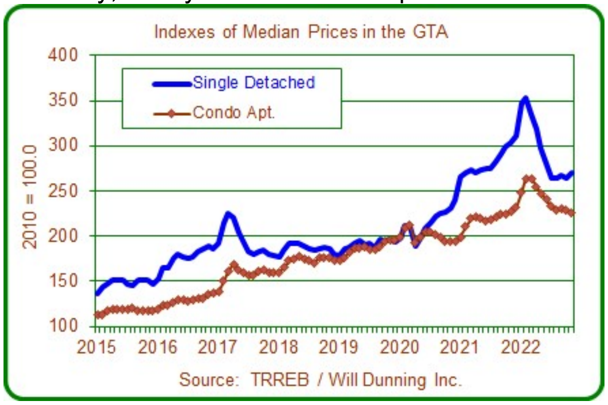
Because of hesitancy on the part of both potential buyers and potential sellers, listings are still constrained (whether measured by inflows of New Listings or inventories of Active Listings).

My analysis indicates that the Sales-to-New-Listings Ratio does a much better job of explaining price trends versus the Active Listings ratio, and therefore I concentrate on the SNLR. But, I suspect that during 2023, active listings will creep upwards and could become a more important factor in the marketplace.

Also, in the past, I have found that the average of the SNLR over the past 12 months does a better job than the monthly data at explaining price changes. But, that relationship isn't working very well at present, because there has been such a sudden and large shift in the market balance. The threshold for a balanced market in the GTA is an SNLR of 52%. During the past year, the average has been 54% and, therefore, prices should in theory be rising slightly. But, during the past 6 months the ratio has been far below the 52% threshold (at an average of 44%) and this is forcing substantial price reductions. Usually, I show the first of these two charts. Today, the second one is more relevant.



Prices appear to have fallen by more for low-rise dwellings than for condo apartments. That is surprising to me: I have been expecting more distress in the condo sector (largely because new construction is adding a lot of new inventory). Based on median prices, values for single-detached homes have fallen by 24% since February, but by 14% for condo apartments.



One possible explanation is that there might be more people moving-down from singles into condos. But, I don't see any evidence for that.

In terms of activity, the condo sector is weaker than singles, as shown in this table: prices should be falling more rapidly for apartments. I have a theory about this. Prices for new homes and condos are higher than for older properties. It might be that a lot of condos selling now are in newer buildings, and this could be biasing the price statistics upwards, meaning that price reductions are being under-stated. But, I don't have access to the data resources I would need, and so this is just a hypothesis. I'm hoping that someone else will do the testing.

Market Data for Resale Single-Detached Homes and Condo Apartments, November 2022		
	Single-Detached	Condo Apartment
Sales (Nov/22 vs Nov/21).	-47%	-55%
Sales-to-New Listings Ratio	52%	45%
Sales-to-Active Listings Ratio	39%	29%
Year-over-Year Change in Median Price	-11%	0%
Source: calculations by Will Dunning Inc., using data from TRREB.		

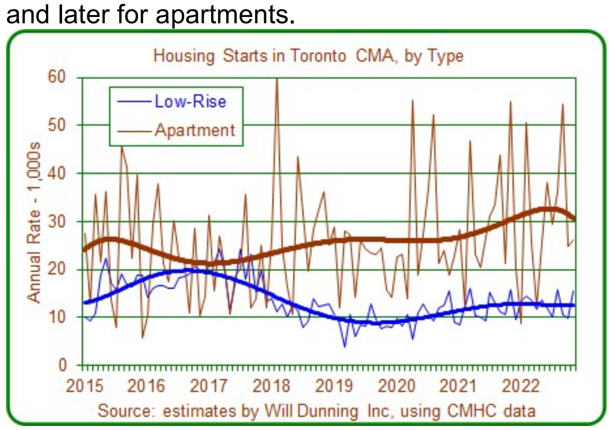
Interest Rates

The Canada edition of this report contains a long diatribe, which concludes that while we aren't yet seeing many concrete signs of the economic impacts of high interest rates, that takes time, and 2023 might be really bad. The Bank of Canada should declare victory in its war on the middle class, and then retreat.

New Housing Construction

New home sales have dropped sharply (this chart shows data up to October).

But, housing starts are unaffected so far, due to the lags between decisions and actions. I expect that starts will slow for low-rises during next year, and later for apartments.



Other News

Last month, I exchanged emails with someone who retired this year, whose 80th birthday is in a few days. He now has the time to read my reports. I'm glad I met you.

How to Reach Will Dunning Inc.

Email: wdunning@sympatico.ca
Web site: www.wdunning.com
Twitter: @LooseCannonEcon

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