Housing Market Digest

Greater Toronto Area, October 2020

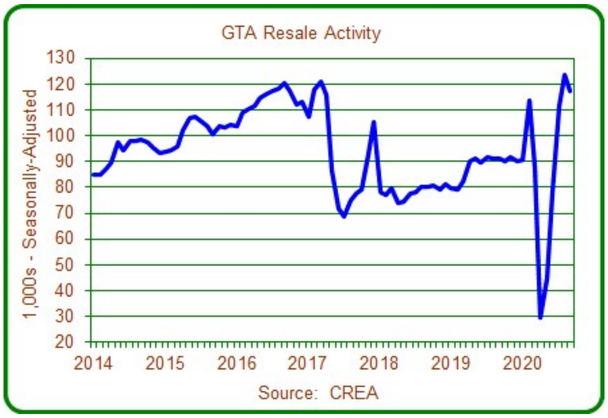
Synopsis: housing and economic data remain highly volatile, and do not give us useful clues about what will happen next.

Employment?

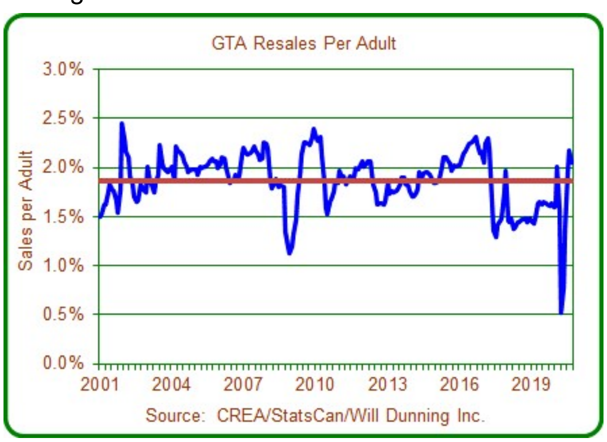
According to Statistics Canada estimates, Toronto CMA employment fell by 627,000 during February to May. As of September, 80% of the losses have been regained: employment is now estimated to be 125,000 (3.5%) lower than in February. For all of Canada, the shortfall is similar (3.7%).

Resale Market

Sales in the GTA dipped in September. While the annualized sales rate of 117,200 was a bit lower than the all-time record that was set in August, this is still a very strong sales rate.



Sales have not fully made-up the huge shortfall that was seen during the spring. For the six months from April to September, the average sales rate was 84,000. Making an adjustment for population growth, the long-term average sales rate is now about 106,000. Sales for the past six months are 21% below that population-adjusted average. The shortfall in the GTA is much worse



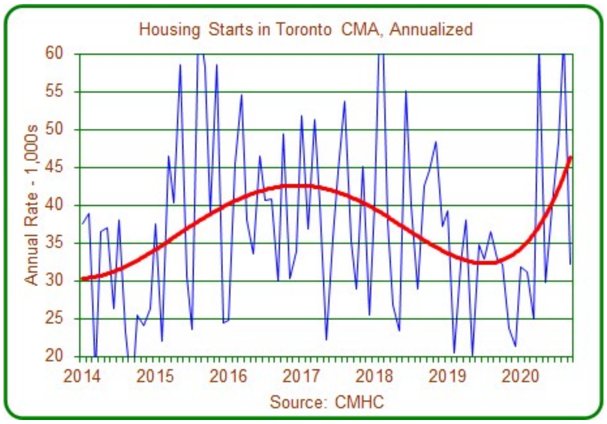
than for all of Canada (5% for the same period).

Weaker sales are partly due to a continued shortage of new listings, in addition to the depressive effects of the pandemic. The sales-to-new-listings ratio has been erratic. For September, it jumped to 65.9%, well above the balanced market threshold of 53%. For the past five months, the average is 58.5%.

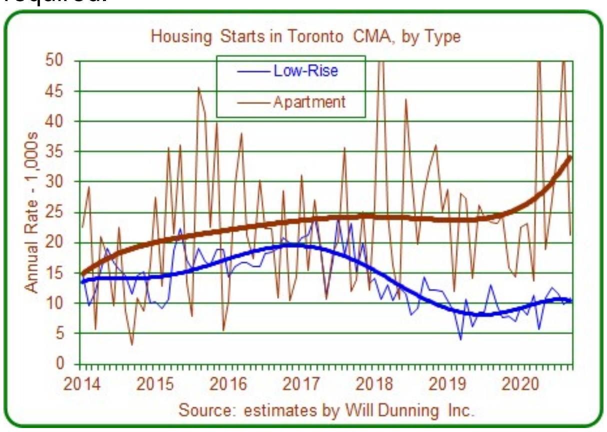
Tight market conditions are now resulting in rapid price growth (for low-rise homes). During the past six months, CREA's price index has jumped by 6.6% for single-detached homes (and the year-over-year change is 12.9%). But, pricing is currently flat for condo apartments.

Housing Starts

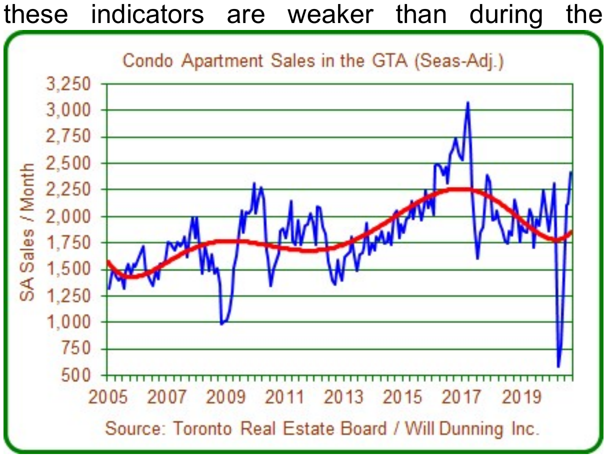
Housing starts (for the Toronto Census Metropolitan Area) dropped sharply in September, to an annualized rate of 32,100. But, three strong performances during the past six months have caused the trend to be quite strong: the average rate for April to September is 45,600. Starts continue to reflect pre-construction sales that occurred before the onset of Covid-19.



The month-to-month variations are almost entirely for apartments. Low-rise activity has increased, but remains far lower (by at least half) than is required.



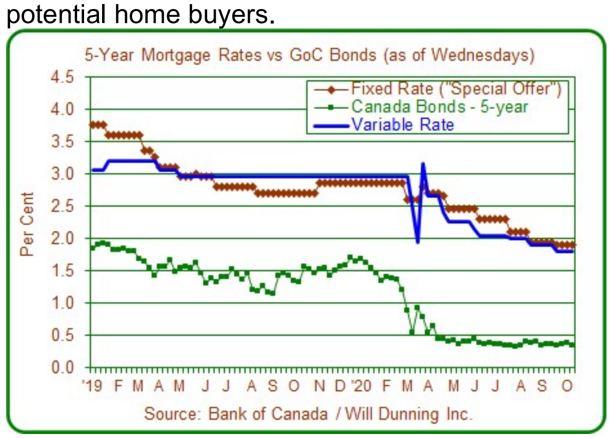
As I've commented previously, the combination of an over-stuffed supply pipeline for apartments and a Covid-19-driven shift of consumer preferences away from apartments is risky. That said, at present, resale market indicators for condo apartments are signaling a balanced market condition, in terms of sales (see the next chart), inventories of active listings, the sales-to-listings ratio, and prices (as seen in an earlier chart). All of these indicators are weaker than during the



overheated conditions of 2016 to 2019, but they are currently healthy in a long-term perspective.

Interest Rates

Bond yields remain at extremely low levels. The average yield for 5-year Government of Canada bonds has been in the area of 0.35% during the past three months. My opinion-estimate of a typical "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.90%. Prior to this year, the previous record low was 2.5% during the summer of 2016. For variable rates, my opinion estimate is 1.8%. The mortgage stress tests currently use a rate of 4.79%, which is almost 3 points above actual rates and is unduly constraining some well-qualified potential home buyers.



The spread between 5-year fixed rate mortgages versus bonds is currently 1.55 points, which is below the long-term average of 1.8 points. But, it is similar to the average of 1.49 points seen last year. The narrow spread reflects that the market is quite competitive. However, for variable rate mortgages, the spread versus Bankers' Acceptance rates (currently also 1.55 points) is above the 2019 average of 1.12 points.

I'm looking forward to seeing you again.

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