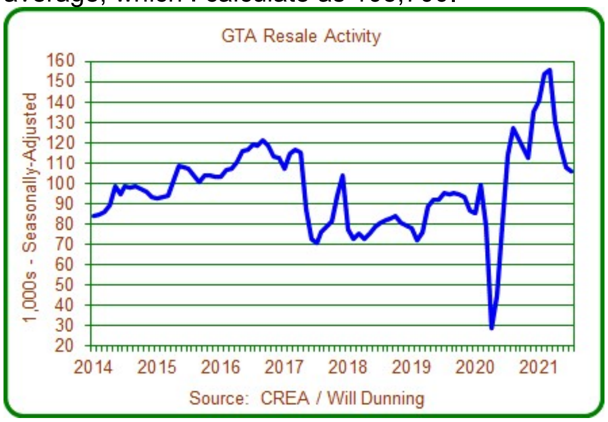
Housing Market Digest

Greater Toronto Area, August 2021

For the moment, there's a bit more caution in the GTA market, among both buyers and sellers. CMHC should conduct its Rental Market Survey quarterly, not just annually.

Resale Markets

Sales activity continues to decelerate in the GTA. The annualized sales rate for July was 105,900 (based on 9,390 actual sales). This is almost exactly equal to the population-adjusted long-term average, which I calculate as 105,700.



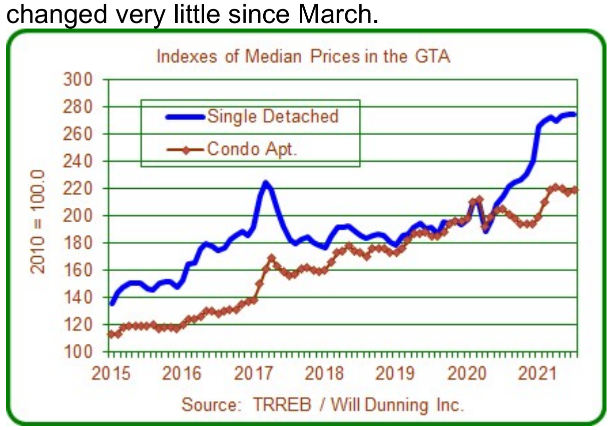
By this measure, the GTA is currently weaker than for all of Canada (where the July sales rate was 8% above the population-adjusted average). For the period since the start of 2018, the sales rate in the GTA is 8% below the long-term average.

The slowdown has multiple causes including price resistance and deterioration of affordability, from highly favourable levels a few months ago, to a situation that is a bit worse than normal.

A further factor has been a severe shortage of listings. Flows of new listings into the market are not keeping up with demand, and most new listings sell almost instantly. The result is that there is very little active inventory on the market (at the end of July, active listings were only about one-half of a normal level – and in the GTA a normal volume of listings already isn't enough). If there were more supply, there'd be more sales.

The sales-to-new-listings ratio is quite high (71% in July and averaging 68% during the past year). This is far above the balanced market threshold for the GTA, which I estimate as 53%. The market imbalance caused extreme price growth late last year and early this year, but buyers seem to have become a lot more resistant to high prices. Sellers are resistant to lowering their price expectations.

As I discussed last month, price indexes still aren't showing the deceleration that is occurring (because their construction involves some smoothing). This month, as an alternative, I have turned the median prices reported by TRREB into indexes. This data shows that prices have changed very little since March.



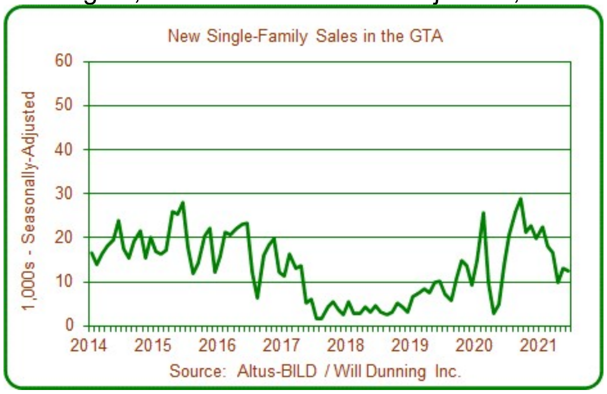
I'm still not ready to restart forecasting, because there is too much uncertainty about Covid-19, its economic impacts, and how changing work arrangements will affect demand. That said, here are three major factors that I think will be positive overall for sales this fall and into next spring:

- Affordability in the GTA has transitioned rapidly from being much better than average to be slightly worse than average – this largely explains the slowdown seen this year.
- On the other hand, changing working arrangements will result in sustained interest in changing living arrangements.
- While employment has been weak in the short-term, there has been a lot of growth compared to 3-5 years ago, which means that a lot of people have been getting ready to buy.

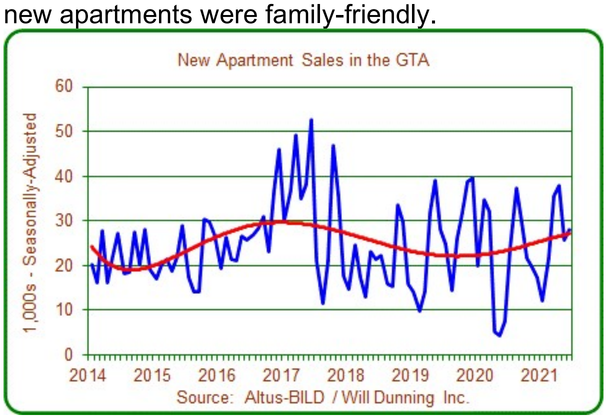
As I've commented several times, I see a possibility of a partial price correction, due to price resistance, but I don't foresee a bloodbath, because the huge undersupply of housing within the GTA is not going to get fixed anytime soon.

New Home Sales

On a demographic basis, the GTA needs more than 20,000 new low-rise (single, semi, and row) dwellings per year. Production has been far below that for a long time. There was a promising burst of new low-rise sales late last year, but for the first six months of this year, the average retreated once again, to an annualized rate of just 15,000.



Apartment sales remain above the estimated requirements. That would be okay if enough of the new apartments were family-friendly.

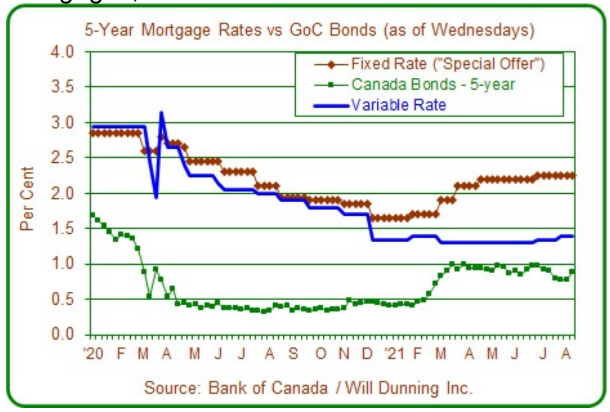


Rental Markets

There is a lot of chatter about over-heating of the rental market (bidding wars, etc.). Based on really flimsy observations, it seems to me that this is only happening at the upper tail of the market, and the bulk of the market (older, less expensive, purpose-built) is soft, with vacancies still relatively elevated and some incentives being offered. But, we don't have real data that covers the market broadly. CMHC should do its market survey quarterly.

Interest Rates

Bond yields (and mortgage interest rates) have shown only minor variations during the past five months. The yield for 5-year Government of Canada bonds remains in the area of 0.8-0.9%. My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) is 2.25%. For variable rate mortgages, the rate is now 1.40%.



Employment

Employment trends are uncertain, with very large month-to-month changes being reported. As of July, the level of employment in the Toronto CMA is estimated to be 1.6% lower than in February 2020. On the other hand, employment is now higher than at any time prior to July 2019, and a long history of strong job growth during the prior decade is very positive for housing demand.

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