

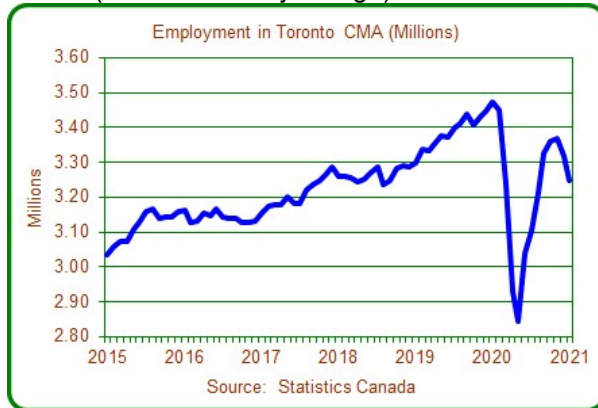
Housing Market Digest

Greater Toronto Area, February 2021

Sad but true: lower interest rates create space in which house price can rise, and still be affordable. That's happening now. If supply was adequate, pricing would be much less responsive to interest rates.

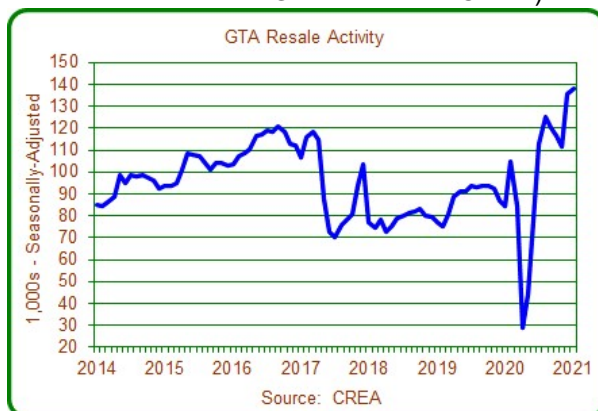
Further Economic Consequences?

Statistics Canada estimates that Toronto CMA lost jobs in both December and January (a combined loss of about 120,000). Toronto CMA employment is now estimated to be 226,000 (6.5%) lower than a year ago. For all of Canada, the loss isn't quite as bad (4.4% versus a year ago).



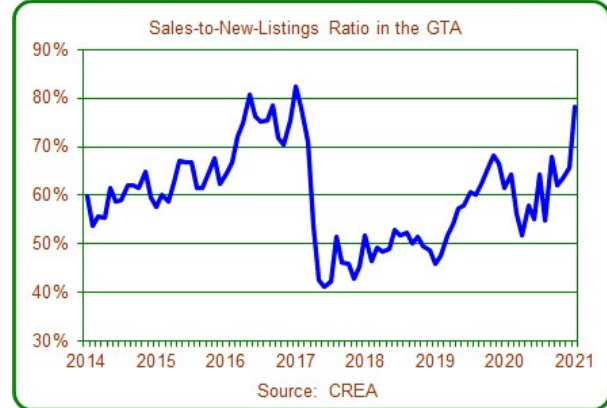
Resale Market

Another monthly sales record was set in January, at an annualized rate of 138,100. The population-adjusted sales rate for January was 29% above the long-term average (although this is 1% below the record that was set in December 2009, during the rebound from the "Great Financial Crisis").

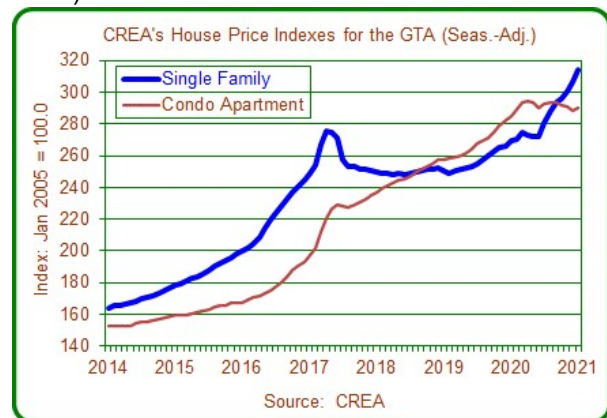


Flows of new listings into the market remain deficient. The sales-to-new-listings ratio was 78% in January, far above the balanced market threshold of 53%. TRREB data also shows a severe deterioration for active listings (this

January, the supply on the market was 28% below the 10-year average).



Prices are rising rapidly. CREA's price index for the GTA is up by 7.4% during the past six months, which equates to an annualized growth rate of 15.4%. Single-family pricing is extreme (up by 11.8% during the past six months) while the index for condo apartments has dropped slightly (by 0.8%).

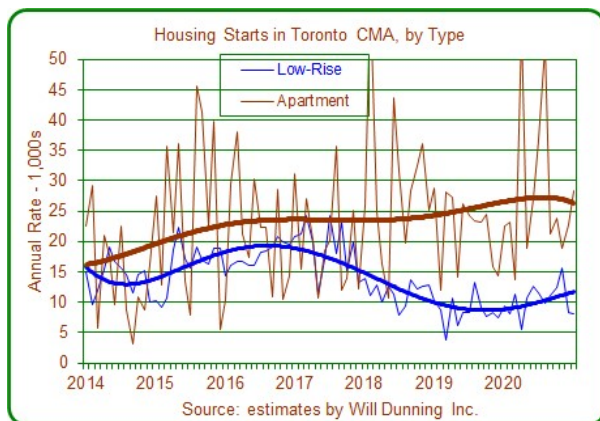


Housing Starts

Housing starts (for the Toronto Census Metropolitan Area) are quite variable from month-to-month, but there isn't a clear trend up or down. The sales rate for January (36,400) and the trend are still too low. Low-rise starts are still less than one-half of what they should be. That said, new home sales data from BILD (Building Industry and Land Development Association) and Altus Group point to more low-rise starts for this year (but not enough to materially improve the supply situation for resales). I continue to believe that there is an

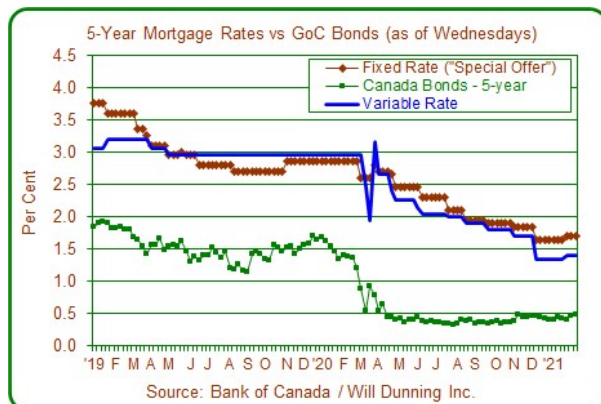


excessive supply of apartments, which may result in oversupply for some time.



Interest Rates

Bond yields have crept up since the end of October. Today (February 16), the yield for 5-year Government of Canada bonds is in the area of 0.55%. My opinion-estimate of a typical "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is up slightly, to 1.7%. The spread between 5-year fixed rate mortgages versus bonds is skinny at just 1.15 points. For variable rates, my opinion estimate is now 1.4%. The mortgage stress tests still use a ridiculous rate of 4.79%.



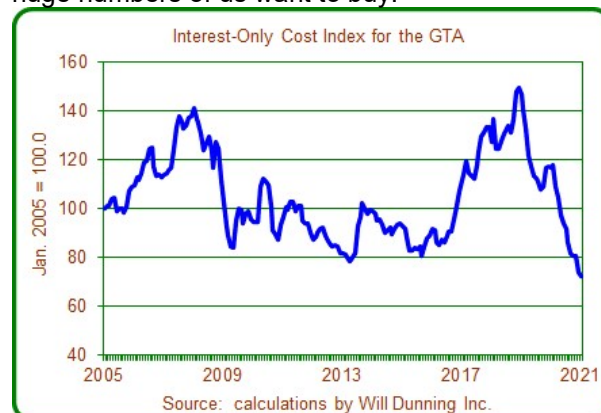
Improving Affordability?

I have noticed in the past that house prices tend to be responsive to changes in interest rates, but with a lag. That process is happening now. The result, to this stage, is that affordability has actually improved (because prices aren't completely in-sync with rates). In these charts, I have combined CREA's composite price index for the GTA with wage data and my estimates of typical special offer mortgage rates. In the charts, the falling values for the cost indexes show improving affordability.

In terms of the monthly payments, affordability is still worse than before 2017, but it has improved.



At low interest rates, the amount of principal that gets repaid each month is very large (currently two-thirds of the payment). The cost of finance is the interest part only. Calculated on that basis, affordability in the GTA is currently extremely good. In a time when a lot of us are thinking about our housing situations, it is not surprising that huge numbers of us want to buy.



I'm looking forward to seeing you again.

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