

Housing Market Digest

Greater Toronto Area, June 2017

Synopsis: the downturn in the GTA housing market should be short-lived, but consumer psychology can be a tricky thing.

Resale Market

Resale activity plunged by 28% in May, to an annualized rate of 85,100.



Meanwhile, there has been a sharp uptick in the flow of new listings into the market, but this has been exaggerated by rapid cancellations and re-listings. Data on active listings show that there has been quite a lot of improvement, but from extremely low levels. The inventory is now similar to the level seen two years ago, and we should recall that the market was under-supplied at that time.



The economic fundamentals are still quite favourable, and sales activity is currently a lot lower than it should be. For at least three major reasons, many potential buyers have hit the pause button:

- They realized that the market was being stupid earlier this year and wisely decided not to take part in the frenzy.
- Then, the provincial government announced a set of policy measures that are relatively toothless, but gave consumers another reason to wait-and-see.

- Thirdly, the very sharp drop in sales (and the plunge in the average price, which is getting a lot of attention) may cause some people to worry that prices will fall, which could be a major deterrent. Such expectations can become self-fulfilling, which makes this a dangerous time.

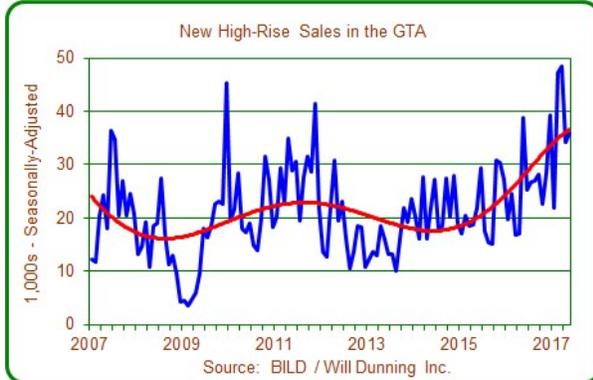
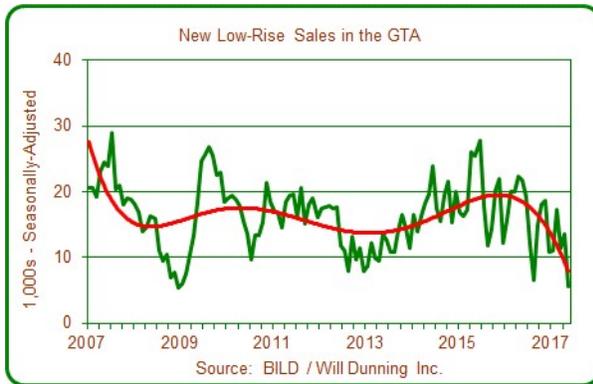
While the average price fell sharply during April and May (by more than \$50,000), this has been distorted by a change in composition. CREA's House Price Index suggests that prices have increased slightly (and after seasonal-adjustment, it appears that prices have flattened). It would not be out of line for prices to fall by as much as 10%, to take out the excess growth seen during the past year, but a larger drop would be hazardous to confidence and therefore to the broader economy.



For all of Canada, the May report showed a 6% drop in the sale rate, driven by reductions in Toronto and surrounding areas. In most other areas, sales trends are strong. CREA's price index for Canada shows year-over-year growth at 17.9%, which is still highly influenced by Toronto and environs.

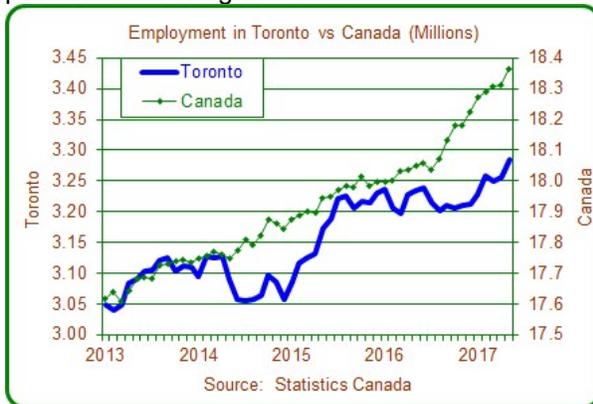
New Homes Market

New home sales remained healthy in May, at an annualized rate of 41,600 (based on 3,902 actual sales). Low-rise sales were pathetic, at one of the lowest ever sales rates (just 5,700, based on 545 actual sales). High-rise sales remained very high, at a rate of 35,900 (based on 3,357 actual sales). During the past 12 months, low-rise activity has totaled just 13,400 units, while high-rise sales have been 32,000. The total of 45,400 is healthy, but the mix is definitely not.



Economic Trends

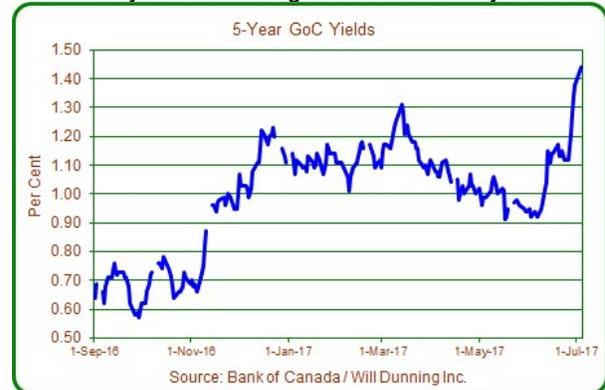
The employment data from Statistics Canada's Labour Force show moderate job creation in Canada (averaging 1.2% per year over the past two years). The data for Toronto CMA show a 1.8% growth rate for the same two-year period (I believe that this is an under-estimate and the true rate is probably 2.25-2.5%). Either way, this is positive for housing demand.



Interest Rates

Bond yields have increased sharply during the past month, and are now at the highest level since the end of 2014. Mortgage interest rates are now in the process of adjusting. My opinion-estimate of

the typical 5-year fixed mortgage rate is 2.75%, but is likely to rise during the next few days.



The Bank of Canada will probably raise its policy rate in July, with another possible increase in October, for a total rise of a half-point rise. This would just reverse the drops seen in January and July 2015.

The Outlook

No changes have been made to my forecasts.

Toronto Indicators		
	2016 Actual	2017 Forecast
Job Growth (Toronto CMA)	1.2%	2.1%
Resales (units)	113,725	109,800
Ch. in Avg. Resale Price	17.3%	10.8%
GTA New Home Sales		
Low-Rise	17,975	19,600
High-Rise	29,186	24,400
Total	47,161	44,000
Housing Starts (Toronto CMA)		
Low-Rise Ownership	17,581	16,800
Condo Apartment	18,769	23,900
Rentals	2,677	2,500
Total	39,027	43,200
Apartment Vacancy Rate	1.3%	1.4%

Source: forecasts by Will Dunning Inc. (Feb 8/17)

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