

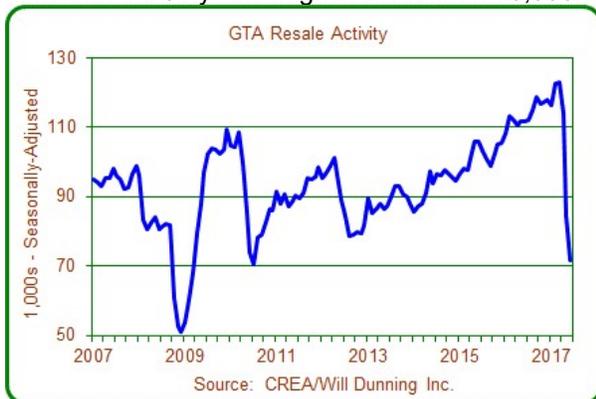
# Housing Market Digest

Greater Toronto Area, July 2017

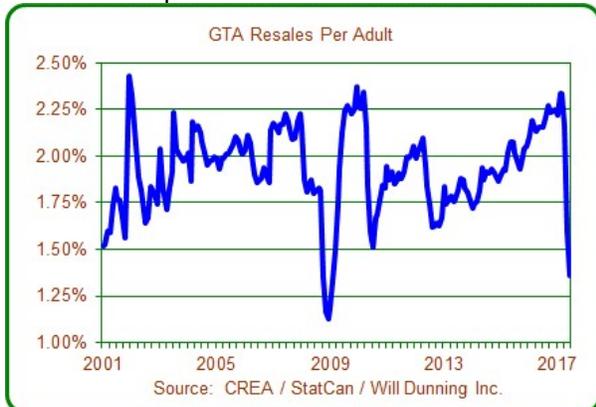
**Synopsis: based on the fundamentals (still-low interest rates, possibly reasonable job growth, and a history of inadequate new construction that has led to a severe deficiency of low-rise inventory), the GTA housing market should be in a chronic “sellers’ market” state. Yet, expectations matter, which makes the outlook incredibly uncertain. Expectations can become self-fulfilling and self-reinforcing. If enough people believe that prices will fall significantly and act accordingly, then prices could fall, despite the fundamentals. This is a dangerous time.**

## Resale Market

Resale activity fell even further in June, to an annualized rate of 71,700. Recent commentary hints that the July rate might be less than 70,000.

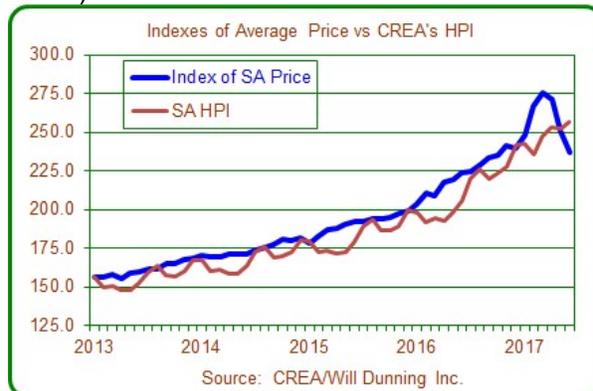


Expressed on a per person basis, the sales plunge is even more pronounced.

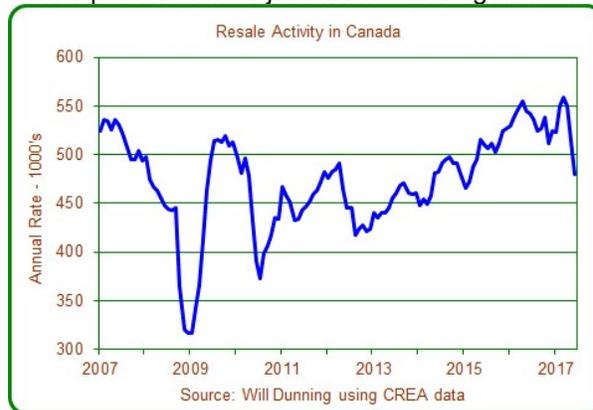


The average price reported by TREB has fallen sharply (by 14% compared to just two months ago). But, this has been distorted by changes in composition (the share for singles has fallen by four percentage points from a normal level and the share for condo apartments has increased). In addition, for singles there has been a sharp drop-off for high end sales. In the next chart, I have converted the average price into an index so it can be compared to CREA’s House Price Index for the GTA (both datasets have been seasonally-adjusted). This comparison suggests two things: that the average price was distorted upwards during the frenzy and now is being distorted downwards. I sympathize with the current

challenge in estimating a house price index and suspect that neither the average price nor the HPI are giving a perfectly reliable picture of the true state of affairs. Anyway, at this point, what people believe about the price trend (and the outlook) might be more important than the reality (whatever that is).



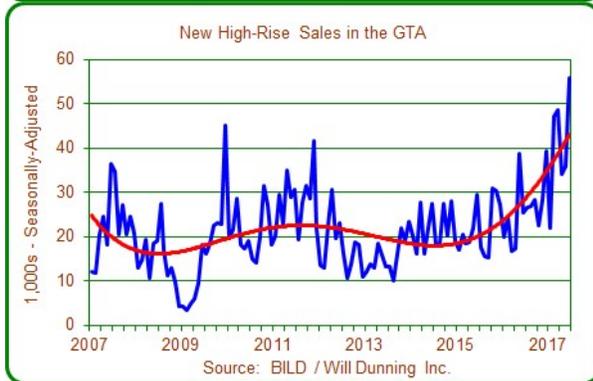
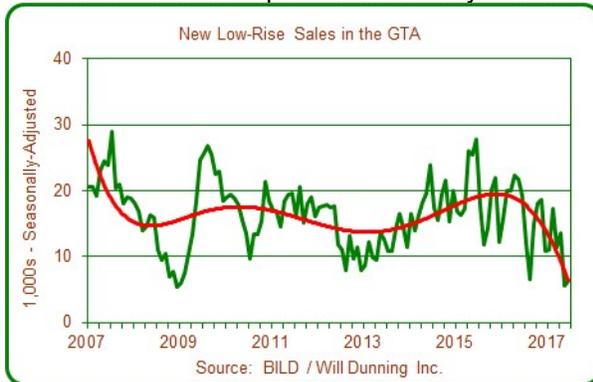
For all of Canada, the June report showed a drop in the sales rate (to 10% below the average of the prior 12 months). This was largely driven by reductions in Toronto and surrounding areas. But, smaller reductions were seen in many other locales. CREA’s price index for Canada shows year-over-year growth at 15.8%, which is down from a peak of 19.7% just two months ago.



## New Homes Market

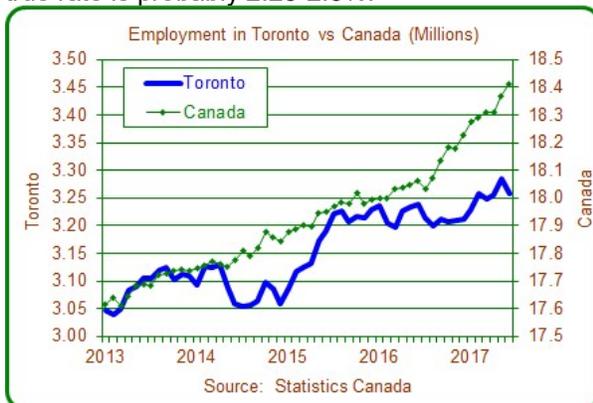
New home sales leaped in June, to an annualized rate of 62,100 (based on 6,046 actual sales). This is the 8<sup>th</sup> highest rate all-time. But, low-rise sales remained very low, at a rate of 6,300 (based on 551 actual sales). High-rise sales hit the highest

all-time rate (55,700, based on 5,495 actual sales). While the sales total is encouraging, neither of the two components is healthy.



### Economic Trends

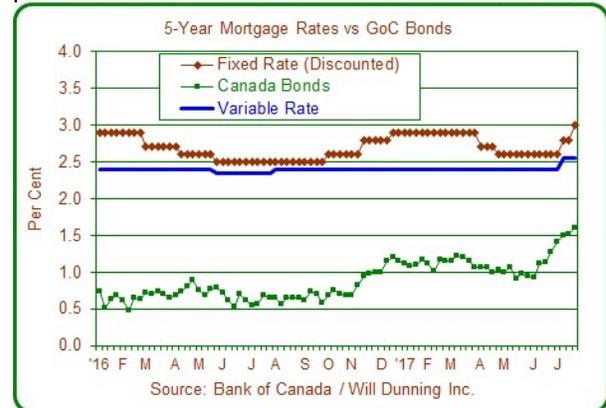
The employment data from Statistics Canada's Labour Force Survey show year-over-year job growth of just 0.6% for the Toronto CMA. If the Toronto data is even remotely close to correct, that would be very bad for the housing outlook. I still believe that this is an under-estimate and the true rate is probably 2.25-2.5%.



### Interest Rates

Bond yields continue to rise. At the moment, the yield for 5-year GoCs is close to 1.6%, up by 80 bps from the average seen during 2015 and 2016

(0.79%). Some increase has been justifiable, given improved economic indicators for Canada. At this point, yields have increased enough, and there should be a pause, but what the market decides could be very different. Mortgage rate adjustments were a bit slow. At this point (with my opinion estimate of a typical 5-year fixed rate from major lenders at 3.0%) the bond-mortgage spread is too low (1.4 versus a normal 1.8) and there is potential for further increases in the near future.



### 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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