Housing Market Digest

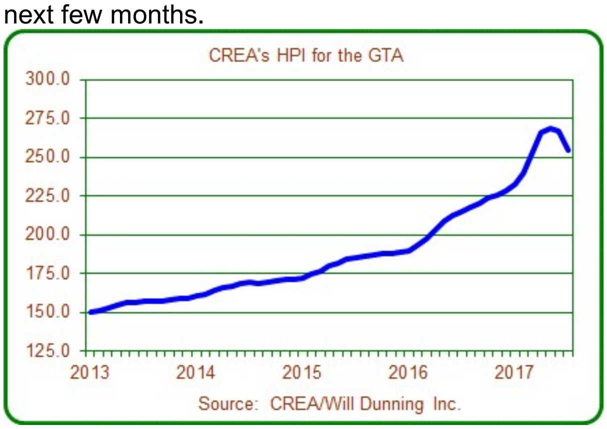
Greater Toronto Area, August 2017

Synopsis: at this point the economic fundamentals are less important than consumer psychology. If enough potential buyers are fearful and hold back, the fears of a market collapse could become self-fulfilling. If that happens, it will be tragic, and it will be easy and necessary to assign blame to the federal government and the province.

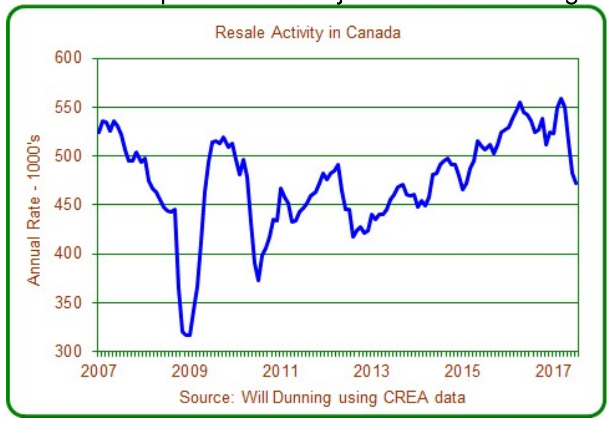
Resale Market

Resale activity continues to weaken. The annualized sales rate for July was 68,400. Commentary on mid-month activity hints that the rate for August might be around 65,000.

The average price has fallen by 19% from the peak seen in April. Year-over-year, the average is still up (by 5.1%). As I've commented before, the average price is distorted by changes in composition (high end activity has fallen the most). CREA's House Price Index attempts to eliminate the distortions. The HPI for the GTA suggests that prices are down by about 5% from the peak, and are still up by 18% year-over-year. However, I suspect that due to its construction, the HPI is not fully capturing the amount of price adjustment and therefore it will show substantial drops during the next few months.



For all of Canada, the July report also showed a drop for sales. The rate for July (472,700) was 12% below the figure for all of 2016 and 6% lower compared to 2015. The national House Price Index is being weighed down by what's happening in Toronto and surrounding areas. For July, the national HPI was down by 1.5% from June. The year-over-year growth rate is 12.9%, which is down from a peak of 19.7% just three months ago.

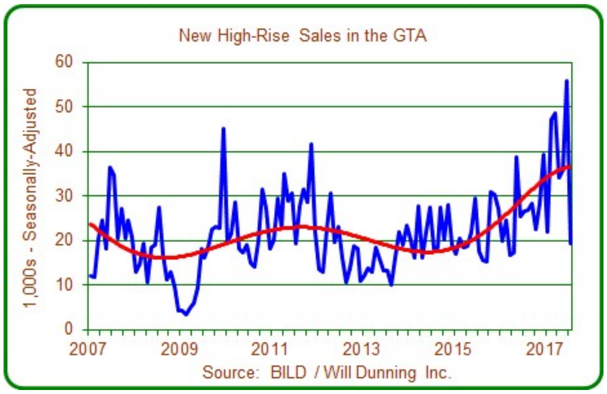


The rise in mortgage interest rates that has occurred since late June would normally cause a bump in sales as people take advantage of pre-approvals. There is no sign of that happening in Toronto. We'll see if there is any impact elsewhere.

New Homes Market

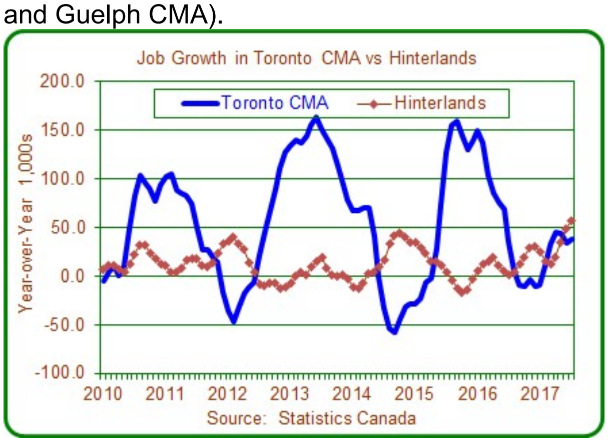
Following excessively strong new home sales in June, activity plunged in July, to an annualized rate of 21,200 (based on 1,752 actual sales). Low-rise sales were at the lowest level of all time (my database goes back to 1981), at just 137 actual sales and an annualized rate of just 1,800. This is all about the critical shortage of supply.

High-rise sales also dropped: the annualized rate of 19,400 (based on 1,615 actual sales) is healthy.



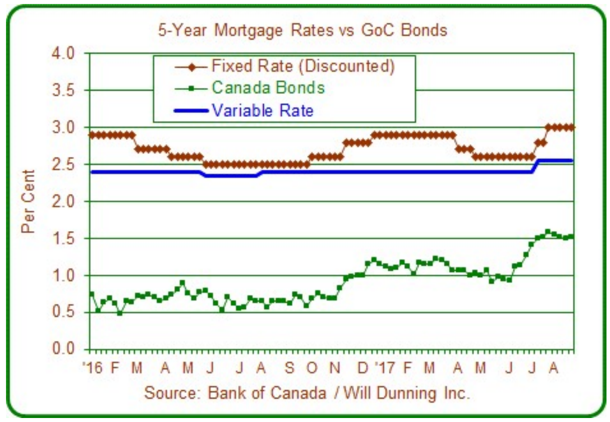
Economic Trends

There is an argument that while job creation is weak in the Toronto CMA, there has been a surge of growth in outlying areas. If this is true, it would be evidence that the shortage of new housing supply in the Toronto CMA has caused growth to leapfrog. The data does indicate that job growth has improved recently in the Hinterlands. But, that recent surge, so far, looks more like random noise than a persuasive change. It's worth watching. (Here, I have defined the "Hinterlands" as Oshawa CMA, Barrie CMA, Hamilton CMA, Brantford CMA and Guelph CMA).



Interest Rates

Bond yields have been relatively stable during the past three weeks, in the area of 1.5% to 1.55% for 5-year GoCs. This is a considerable rise from the average seen during 2015 and 2016 (0.79%). There should be a pause, but what the market decides could be very different. Mortgage rates have not fully adjusted to the rise in bond yields. My opinion estimate of a typical 5-year fixed rate from major lenders is 3.0%. The bond-mortgage spread is skinny (1.5 versus a normal 1.8) and there is potential for further increases in the near future.



Other News

A recent presentation on the GTA market is in the Recent Reports section at www.wdunning.com.

I keep hearing and reading comments that there is not an undersupply in the GTA, that in fact there is an oversupply. Those comments are, of course, nonsense: if there was oversupply, vacancies would be rising, and that is not happening.

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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