Housing Market Digest

Greater Toronto Area, December 2017

Synopsis: resale activity has surged, but mainly due to temporary factors. It seems to me that sales of new condominium apartments are now far above a reasonable expectation of the demand that will exist when they are ready to be occupied. Meanwhile, new low-rise activity is vastly lower than needed, which will bring even worse supply problems in future.

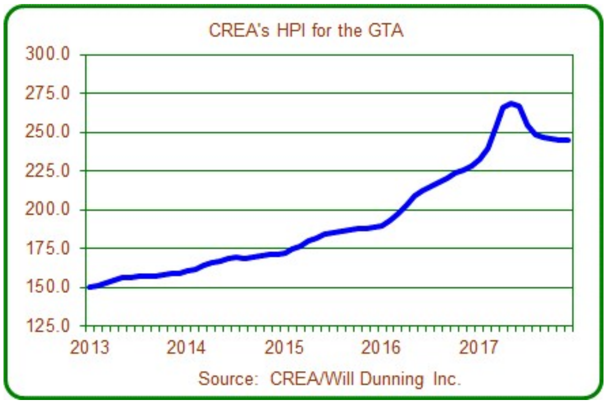
Resale Market

In this edition, I'm including the data for December that has been released by TREB, but the official seasonally-adjusted estimates from CREA are not yet available. Instead, the charts include my preliminary seasonally-adjusted estimates.

Sales increased in December, with the second consecutive large increase, to an estimated annualized rate of 114,000. Sales in December were stronger than they should be, based on the fundamentals. I see four factors contributing to the rebound (1) a recovery of consumer confidence, as the fears seen during the spring did not materialize, (2) a substantial expansion of new listings, (3) favorable weather during the first half of December, and (4) some acceleration of buying to avoid the OSFI-mandated stress test. For 2018, the stress tests and higher interest rates will be dominant factors, tending to reduce activity, but a continuation of reasonable consumer confidence and job creation should be partially offsetting.

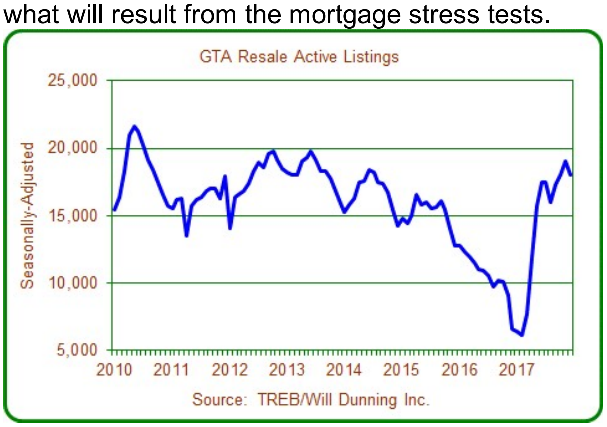
The average price fell sharply in December, to $735,021, but this is a normal seasonal event. This is mainly because the composition of activity shifts in December, away from high-priced homes (singles and semis) towards low-priced options (apartments and town homes).

CREA's House Price Index partly deals with the seasonal effects (by using a stable "composition"). The HPI for the GTA has been roughly flat since August. If this data was seasonally-adjusted, it might show the price index rising in November and December.



The sales rebound roughly matched an expansion of new listings, resulting in little change for the sales-to-new-listings ratio. The estimate for December (48%) is still below the "balanced market" threshold, which is in the low 50s.

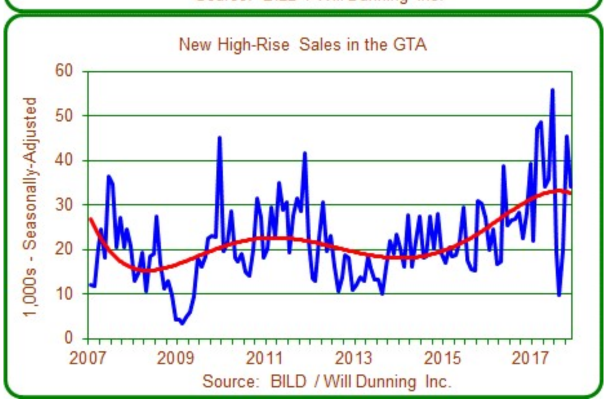
The inventory of active listings has increased compared to a year ago, but is now similar to 2010 to 2013, which was a period of shortages with rapid (but not extreme) price growth. All of this considered, current conditions are favourable for moderate price growth. But it remains to be seen what will result from the mortgage stress tests.



New Homes Market

New home sales dropped in November (December data are not available yet) to a rate of 37,700. Given existing economic conditions, sales should be in the range of 40,000-45,000, and sales have averaged 41,000 during the first 11 months of 2017. But, the mix is totally wrong.

Low-rise activity was at a pathetic annualized rate of 3,700 (and just 7,800 for the year-to-date). Sales should exceed 20,000. Apartment sales were at 34,000 for November (and a similar rate for the year-to-date). Yes, it is true that conditions in the low-rise sector are encouraging (forcing?) families to compromise and buy condominiums, but this sales rate is at least 10,000 units above where it should be. Investors (and speculators) are providing a useful, as they allow new condo developments to proceed, but I fear they have recently lost sight of what conditions might exist when those new buildings are ready for occupancy.



Employment

Statistics Canada has been reporting extremely rapid rates of Job creation for Toronto CMA during the past five months (amounting to an annualized rate of 8.9% during those five months). This is probably contributing to over-estimation for all of Canada. No doubt the economy is strengthening, but the true degree of that strength is not known.

Interest Rates

Bond yields (5-year GoC) have increased sharply during the past three weeks (closing at 1.97% on Friday) The higher yields rates haven't yet fed into a rise for mortgage rates, but that could happen soon. My opinion-estimate of the typical, major lender "special offer" rate is still 3.4%.

The Outlook

No changes have been made to the forecasts.

Toronto Indicators			
	2017	2018 Without B-20	2018 With B-20
Job Growth	2.0%	2.8%	2.3%
Resales (units)	93,158	94,300	84,100
Sales-to-New-Listings Ratio	53.5%	54.6%	47.3%
Ch. in Avg. Resale Price	12.9%	-3.1%	-7.1%
GTA New Home Sales			
Low-Rise	7,800	10,100	9,500
High-Rise	34,200	26,600	24,000
Total	41,000	36,700	33,500
Housing Starts			
Low-Rise Ownership	16,600	11,300	11,200
Condo Apartment	22,400	27,000	27,000
Rentals	2,700	2,500	2,500
Total	41,700	40,800	40,700
Apartment Vacancy Rate	1.0%	1.4%	1.4%
Rent Increase	4.2%	2.8%	2.8%
Source: forecasts by Will Dunning Inc. (Oct 27/17)			

How to Reach Will Dunning Inc.

Telephone: 416-236-5115
Email: wdunning@sympatico.ca
Web site: www.wdunning.com

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