

# FIRST QUARTER 2021 HOUSING MARKET DIGEST ONTARIO



## Are You Staying Safe?

The province of Ontario is experiencing a high rate of Covid-19 infections. As is illustrated in this chart, the population adjusted rate (the 7-day average) is 29 per 100,000 people. This is even higher than the rate of 22 for all of Canada. This chart shows data up to April 19. Current data can be found here:

<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

## Resale Market

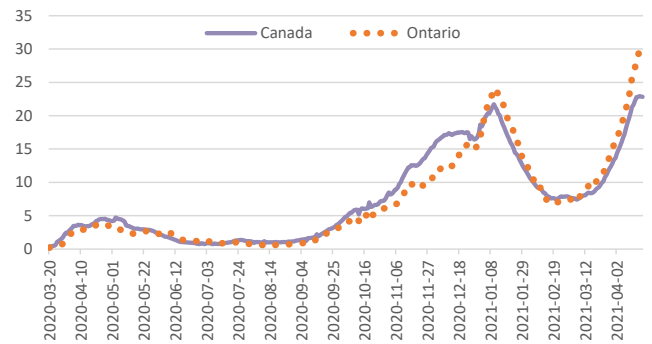
Ontario has set new quarterly sales rates for three consecutive quarters, as a combination of low interest rates and favourable affordability, along with strong desires to change housing situations, is resulting in increasingly strong sales.

The sales rate for the first quarter was 335,000, which is very high in historic terms.

Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that an average rate is now about 232,000. On this population-adjusted basis, the province's sales rate for the first quarter was 45% above the long-term average.

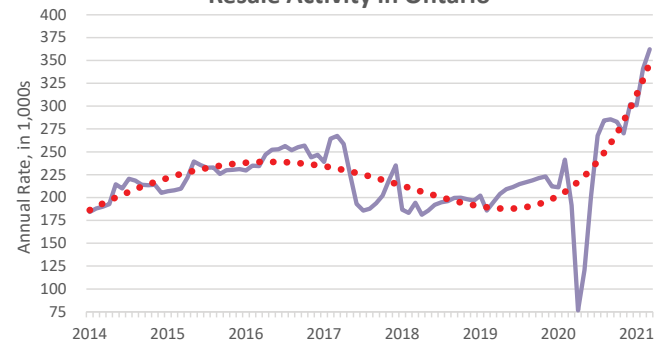
This demand increment is similar to the entire country (for all of Canada, the sales rate in the first quarter was 47% above the long-term average). It is possible that sales within Ontario are being constrained by inadequate supply. Looking at the entire period since January 2018, total sales in Ontario have been slightly (24,000, or 3%) below the population-adjusted average.

Daily Covid-19 Cases in Ontario vs Canada (per 100,000)



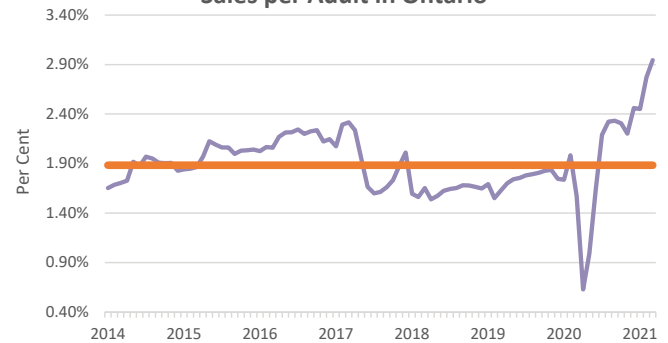
Source: Public Health Agency of Canada

Resale Activity in Ontario



Source: CREA / The Author

Sales per Adult in Ontario



Source: The Author

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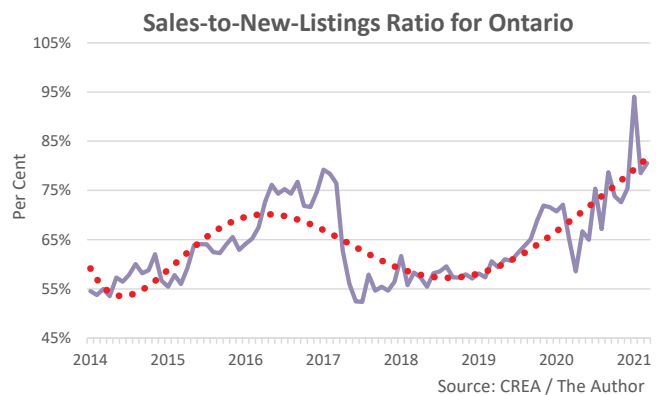
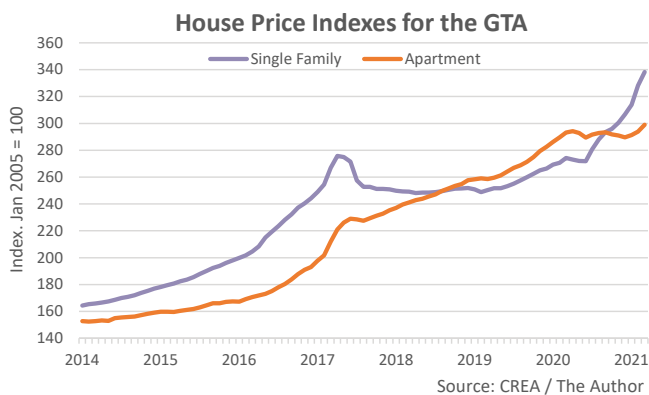
## Resale Market (Continued)

The flow of new listings into the market isn't keeping up with demand, which has caused the province's sales-to-new-listings ratio ("SNLR") to increase to an extremely high level.

The SNLR has averaged 79% during the past six months (similar to the national average of 80%). It is far above the threshold for a "balanced market", which for Ontario may be in the range of 53% - this is the level at which prices are expected to rise by 2% per year.

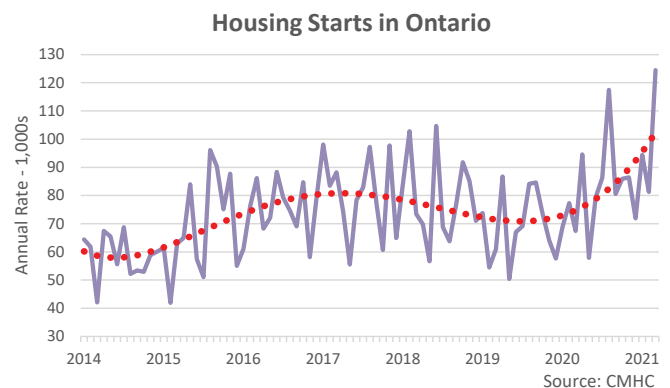
The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA's house price indexes for the Greater Toronto Area indicate that for the first quarter prices for single-detached homes were 21% higher than a year ago, although for apartments the increase is just 2%.

If more supply was available for low-rise housing, sales would very likely be stronger than they currently are, and price growth would be less extreme.



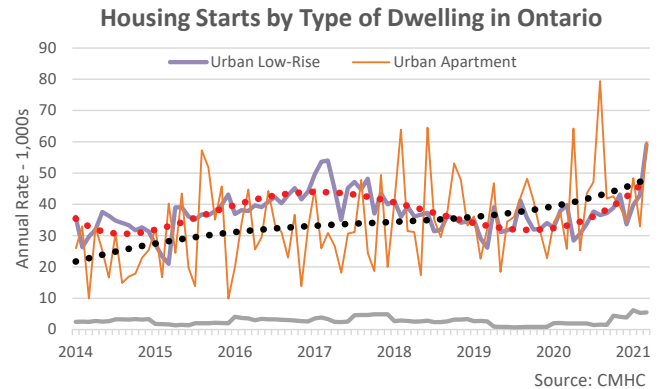
## Housing Starts

Housing starts in Ontario have improved considerably during the past year, and the annualized rate for the first quarter was 103,000.



## Housing Starts (Continued)

Starts have recently improved for low-rise homes in urban areas, but after a decade and a half of under-production, there is a very large shortage in the existing inventory of low-rise homes. Apartment activity remains very strong.



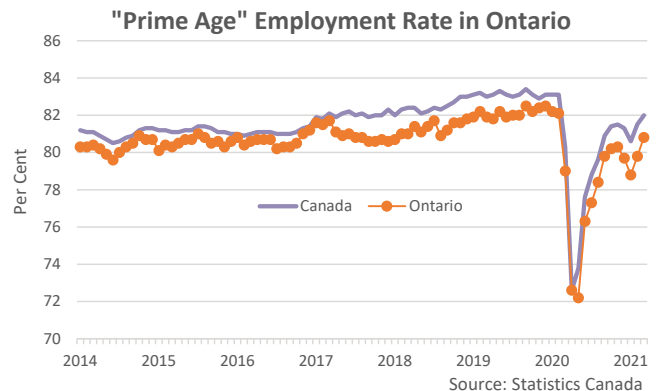
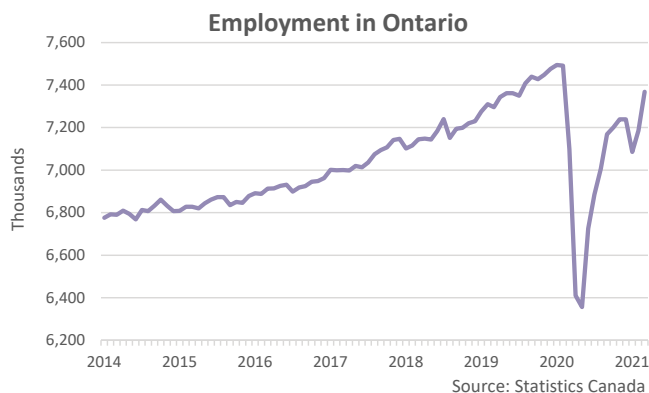
## Employment Trends

Employment estimates from Statistics Canada suggest that employment in Ontario rose in March with the unwinding of economic shutdowns.

But, the level is still slightly lower (1.7%) compared to the start of 2020. For all of Canada, employment is estimated to be 1.4% lower than in January 2020.

The next chart looks at the percentage of adults in the “prime working age” (25 to 54) who have jobs. Due to variations in the estimates, there is uncertainty about the true state of affairs for the “prime age” employment situation.

The employment rate in Ontario appears to be slightly lower than the pre-Covid period. But, that was a period of quite good economic health. The current employment situation is comparable to slightly earlier periods. Therefore, employment is still supportive for housing demand.



## Interest Rates

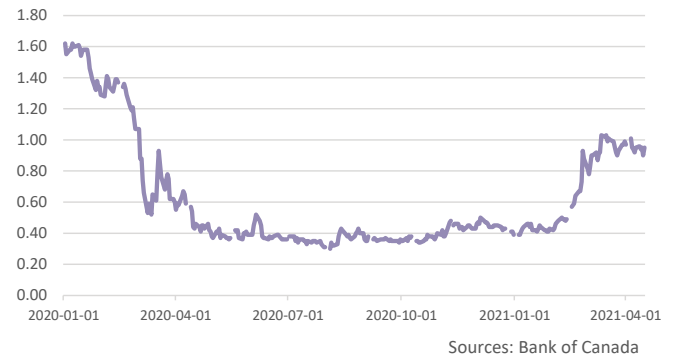
Interest rates rose sharply during late February into early March, but have shown little change since then. The yield for 5-year Government of Canada bonds has been just below 1.0% during the past four weeks, which is about 0.6 points higher than during the second half of last year.

Mortgage interest rates have now followed, rising by a similar amount. My opinion-estimate of a typical “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 2.2% versus 1.65% at the end of last year.

For variable rates, my opinion-estimate is 1.3%.

During most of last year, rates were similar for fixed rate and variable rate mortgages. Variable rates are now considerably cheaper.

Yields for 5-Year GoC Bonds



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