Economics | Current Economic Trends

Ontario Economic Briefing

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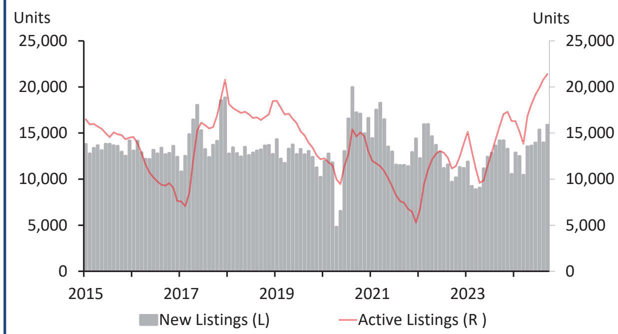
central 1 Economics

Highlights

- Toronto housing market cooldown continued

Inventory rockets higher on slow sales, active sellers



Source: TRREB, Central 1, seasonally-adjusted latest: Sep/24

Buyers shy away from Toronto housing as market deep freeze continues

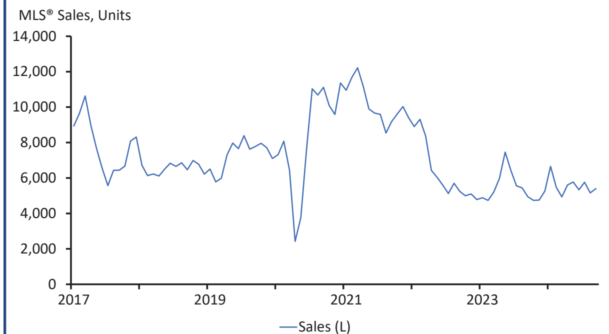
Bryan Yu, Chief Economist

Toronto's housing market remained in its deep freeze in September as homebuyers stayed out of the market even as mortgage rates declined. While many are likely waiting for further reductions in borrowing costs before making a move, some may also be cautious, anticipating that weakening market conditions – especially in the softening condo market - could lead to deeper price declines.

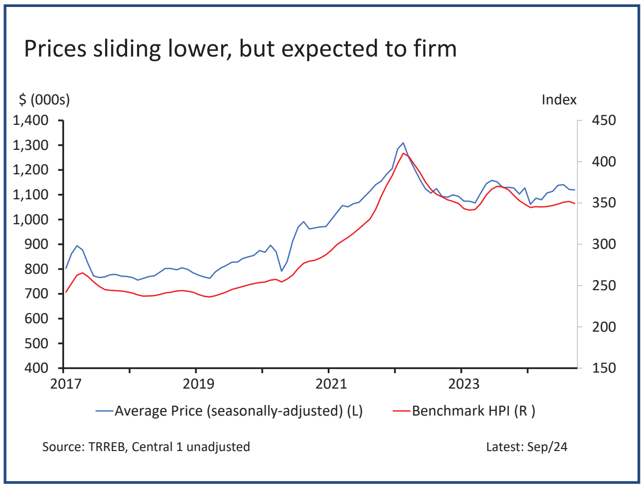
Regional home sales reached 4,996 units in September, marking a 7.6 per cent improvement from same month 2023. That said, sales continue to sputter, with seasonally adjusted sales remaining in line with the lows observed since the interest rate hike cycle in 2022. The sales trend is nearly 30 per cent below 2019 levels, despite robust population growth and despite the early pandemic pullback, this represents the lowest since the mid-2000s financial crisis period. To put this in perspective, while sales have dropped sharply, Toronto's working-age population has grown by 12 per cent, pointing to heavily constrained sales.

We believe the underlying drivers of housing remain robust. Population growth, while expected to slow with a reduction in non-permanent residents, has continued at a strong pace, while interest rates will trigger higher demand. Nevertheless, short-term trends remain negative for prices. There are more sellers testing the market, with new listings rising to 11 per cent year-over-year to 18,000 units and seasonally adjusted figures reaching the highest levels since early 2022. This has increased inventory, jumping to 25,600 units - the highest since 2009 – pushing the market further into buyers' territory. In this environment, buyers have plenty of room to negotiate, putting downward pressure on prices. The average price held at $1.1 million but has trended lower in recent months and was down 1.1 per cent year-over-year and about 15 per cent down from the peak. Benchmark values have shown more downside pressure in comparison with a 4.5 per cent year-over-year drop, with apartments experiencing a 7 per cent slump. Investors and first-time buyers are understandably concerned about catching a falling knife in the multi-family market.

Skittish buyers keep Toronto area sales at recession levels



Source: TRREB, Central 1 Latest: Sep/24



We expect the mismatch between sales and inventory to moderate over time, but market conditions will likely remain weak in the Toronto area into 2025. The underlying drivers of population growth and declining mortgage rates should provide a boost to sales, while lower prices will incentivize more buyers. We expect the Bank of Canada will reduce the rate from the current 4.25 per cent to 2.75 per cent by mid-2025, with the pace of cuts guided by the economy and inflation. This will directly cut variable borrowing costs, while the decline in fixed rates is expected to be more modest ,as current rates have increasingly priced in future rate cuts.

As interest rates decline, buyers are likely to re-enter the marketing, with upcoming policy changes further boosting demand. These changes include a higher property value cap for insured mortgages, which will benefit high-priced markets like Toronto, as well as 30-year amortization options that will further increase borrowing capacity. That said, the rebound in sales will still be constrained by unaffordability. The elevated existing home supply is expected to be curbed by higher sales, while declining condominium and homeownership construction points to further supply constraints over the medium to long term.

For more information, contact economics@central1.com.