Look Up in the Sky: It's a Bird, It's a Plane…It's a Toronto Housing Bubble

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Let's drop the pretence. The Toronto housing market – and the many cities surrounding it – are in a housing bubble. Everyone may have a slightly different definition of what a bubble is, but most can agree it's when prices become dangerously detached from economic fundamentals and start rising strongly simply because people believe they will keep rising strongly, encouraging more buying. Prices in Greater Toronto are now up a fiery 22.6% from a year ago, the fastest increase since the late 1980s – a period pretty much everyone can agree was a true bubble – and a cool 21 percentage points faster than inflation and/or wage growth. And, the ratio of sales to new listings was a towering 93.5 in the region last month, adjusted for seasonality (and was above 100 in Hamilton, Kitchener and the Niagara Region). A normal range for this measure is 40-60, with anything above 60 seen as a seller's market. Across the province of Ontario, months of inventory based on current sales trends has plunged below 1.8 – whereas something above 5 months would be seen as closer to normal. True, all of these figures are for the month of January, a month of relatively low sales which can be pushed around by the weather, and it was a mild month. But, the data simply reinforce an obvious message that has very much been in place for many months now, and by all accounts is still going strong as we speak – the market is far too hot for comfort.

Many in the industry readily reach for a "supply shortage" as the main factor behind the housing heat. But we would remind that housing starts in Toronto and Vancouver have been chugging along at almost 70,000 units per year recently, an all-time high, while overall Canadian starts are above demographic demand at 200,000 units in the past year. And, we are seeing near-20% price gains in Toronto condo prices, where supply constraints are not a major issue. No, the massive price gains are being driven first and foremost by sizzling hot demand, whether from ultra-low interest rates (negative in real terms), robust population growth, or non-resident investor demand.

Canadian existing home sales nationally dipped 1.3% in January on a seasonally-adjusted basis, leaving activity just 1.9% above year-ago levels, about as expected. And, average transactions prices were up just 0.2% year over year. But that figure is being artificially suppressed by a big drop in Vancouver sales, still the priciest market by far. The much more representative MLS Home Price Index charged up 15% year over year, with even larger gains posted almost across B.C. and Ontario. Of the 26 major cities covered, fully 19 saw price gains from year-ago levels with 7 posting double-digit advances. In January, new listings were down a hefty 10.5% year over year, with notably large decreases in many Ontario cities. (Perhaps many potential sellers are understandably retreating to the sidelines amid a market that seems to be nearly out of control.)

Existing Home Sales

Canada (% change)	Sales			Prices	
January	m/m[1]	y/y	2016	**y/y**	**2016**
Canada	-1.3	1.9	6.5	**0.2**	**10.8**
Toronto	-1.6	11.0	11.7	**22.1**	**17.3**
Vancouver	-5.1	-39.7	-5.2	**-18.9**	**12.7**
Winnipeg	-1.0	0.8	4.9	**-0.2**	**2.3**
Calgary	-1.0	14.5	-6.1	**2.7**	**2.0**
Halifax	-7.7	-7.5	6.6	**0.3**	**1.5**
Ottawa	-0.7	13.1	6.2	**6.4**	**1.3**
Regina	-10.1	-3.4	5.6	**-4.2**	**0.3**
Edmonton	0.7	18.1	-6.8	**3.7**	**0.0**
MLS Home Price Index (national)				**15.0**	**12.7**

[1](seasonally adjusted) Source: Canadian Real Estate Association

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Outside of the bubble-like conditions in much of Ontario and parts of B.C., the market is generally very well-behaved. Sales and prices are mixed and moderate in many other cities such as Winnipeg, Montreal, Halifax and Regina. Ottawa used to be included in this list, but it seems to be partially succumbing to the Toronto fever, with sales and prices both heating up recently. Meanwhile, the oil-driven cities of Calgary and Edmonton are showing signs of stabilizing, with sales posting double–digit gains from a year ago in both cities, and modest price gains as well.

At the other end of the spectrum, Vancouver continues to cool. Sales slipped in adjusted terms last month and are down almost 40% year over year. Notably, even with the plunge, the sales/new listings ratio has only now returned to normal at 52.6 in the city, and the benchmark price is still up 15.6% year over year. But because high end sales have dropped sharply, the average transaction price is reportedly down 18.9% year over year.

The Bottom Line: The headline figures for home sales and prices seem innocuous to start 2017, but beneath those calm headlines lies serious churning. Toronto and any city that is remotely within commuting distance are overheating, and perhaps dangerously so. It's a very different story in most of the rest of the country, where conditions are generally calm and under control (with the exception of Victoria). And it's that deep divergence which continues to confound and bedevil policymakers.

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