

Home sales slump in GTA as overheated spring market cools

By Carolyn Ireland

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Celebrations are still breaking out in houses and condos around the Toronto area as sellers stare down a real estate market decline that has extended from May into June. But while some clinch a deal at the price they were hoping for, less fortunate sellers have been hit severely by the shift in market dynamics.

This week in upscale Lawrence Park, for example, a buyer stepped up to purchase the property at 1 Blyth Hill Rd. for \$6.1-million less than two weeks after the house landed on the market. The three-bedroom house with 4,100 square feet of living space sold just below the asking price of \$6.18-million.

But on some streets, sellers are lamenting a lack of buyers – especially after eyeing the prices their neighbours' houses were fetching in the first quarter.

John Pasalis, the data-obsessed president of Realosophy Realty Inc., has started crunching numbers on a weekly basis instead of waiting for the monthly figures from the Toronto Real Estate Board. Last week, he says, sales tumbled 44 per cent in the Greater Toronto Area compared with the same period last year. New listings jumped 34 per cent last week compared with the same period in 2016. Sales of detached houses were harder hit than sales of condo units, his numbers show, with sales in that segment dropping 22 per cent while new listings rose by 11 per cent.

Mr. Pasalis points to York Region as leading the decline. A large swath of the suburbs north of Toronto has seen an extreme drop in sales after a strong run-up in prices in such areas as Richmond Hill, Newmarket and Aurora. Some parts of those communities are stocked with large, detached houses that command rich prices. York Region has also drawn more

investors than some of the less expensive communities that appeal to first-time buyers.

In Durham Region, east of Toronto, agent Shawn Lackie of Coldwell Banker-R.M.R Real Estate, says the overheated market of the early spring raised the expectations of sellers to unrealistic heights. "What it really did was throw a whole lot of gas on the fire for sellers – thinking they were going to cash in because this is their lottery."

But listings suddenly surged after Ontario introduced policies in April aimed at cooling the housing market.

Mr. Lackie recalls that listings had been trickling out and suddenly there were 138 new listings in one day. The following day there were another 85 by midafternoon.

"These buyers who felt like they had been held hostage all of a sudden had options."

Mr. Lackie says some sellers in communities such as Courtice, Oshawa and Bowmanville figure their house should sell for more than the one down the street. The neighbour down the street listed in March when his was the only one on the market, Mr. Lackie says. "Now, buyers have eight, 10, 14 different houses to look at."

He's also seen a lot of stress heaped on owners who signed a firm deal for another property, then delayed putting their existing home on the market in the hope of getting an even higher price later in the spring. This year, the strategy backfired for some.

"It's dangerous as hell, but people were running ahead and doing it," he says. "If you buy and sell in the same market, you're going to be affected by all of the same factors. But they got cute. They're the ones who have been bitten."

Still, some people need to move and they will still be out house hunting.

Also, prospective buyers who had been fed up with losing out in competition are starting to become comfortable with the market again. In the current market, Mr. Lackie advises clients to take a careful look at a new listing, do their homework and figure out what they are willing to pay. Sellers should also be willing to bend, he says. “The art of negotiation has returned.”

Agents now have to manage the expectations of both parties, he says, adding that the activity in July and August will send a signal about whether the current slump is just a blip or a more prolonged cyclical change. Like many veterans of the industry, he would like to see the market return to a more balanced state. “That’s my absolute hope – that we get back to a semblance of normal.”

Economist David Madani of Capital Economics has long warned that the housing markets in Toronto and Vancouver are overheated. Now, he warns that the Toronto market, in particular, is on the verge of a potentially severe downturn, which could lead to a drop in prices.

This spring, sales of real estate in the Vancouver area rebounded after a downturn

following the B.C. government’s introduction of a 15-per-cent tax on purchases by foreign buyers last August. Mr. Madani believes the main reason sales have risen over the past few months is because of slightly lower mortgage rates.

“The uptick in Vancouver home sales is nothing more than a head fake, while the worsening sales slump in Toronto’s much larger housing market points to a correction in prices,” Mr. Madani says.

He believes prospective home buyers in the GTA have been spooked by the Ontario government’s introduction of its own 15-per-cent non-resident speculation tax in April. The economist adds that tougher rules surrounding mortgage insurance and much stricter provincial regulation of housing rent controls contributed to the sudden drop in home sales in the GTA this spring.

Mr. Madani points to the slump in the home sales-to-new listings ratio, which suggests that house prices could decline outright before year end. Since Toronto accounts for about 20 per cent of the national housing market, a downturn in the GTA would likely have a negative impact on the country’s economic growth.