Toronto housing slumps fast after move to deflate bubble

By Michael Babad and Josh O'Kane
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The Toronto area's over-the-top housing market is cooling fast, hosed down by government measures meant to stop a bubble from bursting.

Both sales and prices slumped in June for the second straight month in the wake of Ontario's tax and rent-control measures, numbers released Thursday by the Toronto Real Estate Board show.

The market is expected to cool even more, though economists wonder if the easing will be short-lived, as was the policy-induced slump in Vancouver.

"We are in a period of flux that often follows major government policy announcements pointed at the housing market," the group's president, Tim Syrianos, said in releasing the June statistics.

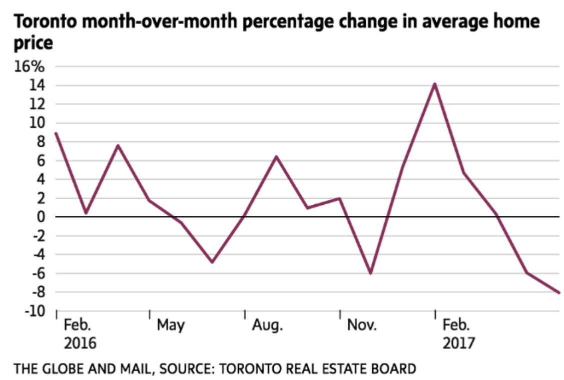
"On one hand, consumer survey results tell us many households are very interested in purchasing a home in the near future, but some of these would-be buyers seem to be temporarily on the sidelines waiting to see the real impact of the Ontario Fair Housing Plan," he added in a statement.

"On the other hand, we have existing homeowners who are listing their homes because they feel price growth may have peaked."

Home sales in the Greater Toronto Area plunged 37.3 per cent in June from a year earlier, to 7,974.

On a monthly basis, sales tumbled 21.6 per cent in June from May, which, in turn, saw a 12-per-cent fall from April.

Average prices were still well up from a year earlier, by 6.3 per cent to $793,915, though that



marks a far slower pace of increase than the region has seen.

And it doesn't tell the monthly story: The average home price slipped 8.1 per cent in June from May, following May's 6-per-cent drop from April.

The MLS home price index, which is seen as a better measure, was still up by more than 25 per cent from June, 2016, though that, too, has slowed.

Listings, too, surged again. New listing climbed 15.9 per cent from a year earlier, with active listing soaring almost 60 per cent.

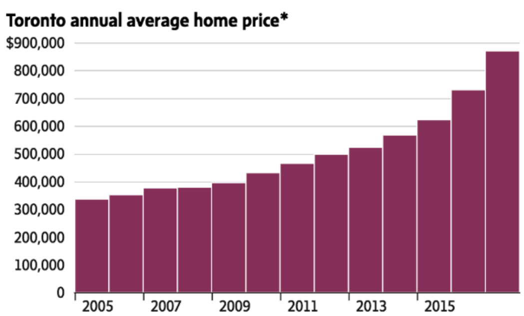
The numbers, said Bank of Montreal senior economist Robert Kavcic, continue "to point to a much tamer overall market balance," as May statistics demonstrated.

"The high end of the market appears to be absorbing the bulk of the policy changes, with single-detached home sales down 45 per cent year-over-year, roughly twice the decline seen in the condo space," Mr. Kavcic said.

"That's apparent in price trends too, with detached price growth now slowing to 24 per cent year over year … while condo prices have accelerated to 30 per cent year over year."

As always in the Toronto area, you have to distinguish between area and home type.

A detached home in the 416 area still goes for an average $1.4-million, and in the 905 region for almost $950,000.



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"The end result has been a better supplied market and a moderating annual pace of price growth," Mr. Syrianos said.

The real estate group also released results of an Ipsos survey showing that 30 per cent of homeowners may list over the next year. Fifteen per cent want to sell because of the new Ontario measures.

The number of potential first-time buyers declined to 40 per cent from 53 per cent in an earlier poll.

The Ontario plan, which included a tax on foreign speculators and expanded rent control, is just one of the factors playing into the market.

Affordability is another, as are rising interest rates.

The real estate group also cut its forecast for this year to sales of between 89,000 and 100,000, with price increases of between 13 and 19 per cent.

Of course, that takes into account the unrelenting surges that preceded the Ontario measures.

At a media briefing, TREB director of market analysis Jason Mercer said that if sales through the end of 2017 are in the low end of the board's forecast, around 89,000 sold, "it'll suggest we haven't seen many people move back into the marketplace," likely in connection with a potential Bank of Canada interest rate increase.

"We could see a bit of a whipsaw like we did in Vancouver where we experience a pullback now, but a lot of buyers move back into the marketplace over the next year or so," Mr. Mercer said when asked if his group had learned any lessons from Canada's most expensive housing market and its own 15-per-cent foreign buyers tax.

Royal Bank of Canada, in a new forecast this week, projected Ontario resales will fall 5.7 per cent by the end of the year, and further 6.9 per cent this year.

Prices, however, will finish out the year 14-per-cent higher, with the pace of growth easing to just 1 per cent in 2018, RBC said.

"Our view is that the introduction of Ontario's Fair Housing Plan will be a turning point for the provincial market," said senior economist Robert Hogue.

"We expect the sharp drop in home resales that occurred since the plan's announcement in April to be largely sustained, even though we believe that the effect of the plan itself will be temporary (perhaps up to six or nine months)," he added in his study.

"Rising interest rates and stretched affordability will become increasingly restraining forces once the market has adjusted to the policy changes. We project moderate - but healthy- declines in Ontario home resales in both 2017 and 2018."

RBC's other notable change came in British Columbia, where it sees sales falling 11.4 per cent in 2017 and 7.8 per cent in 2018. Prices will still be up, though, by 2.3 per cent this year, and 1.5 per cent next.

That's actually better than expected because of the temporary nature of B.C.'s decline, Mr. Hogue said.

"But we still expect poor affordability and rising interest rates to weigh on the market in 2018, keeping resales on a downward track and containing the pace of price increases to low single digits."