MARKET STATS

Royal LePage Real Estate Services Ltd., Brokerage

FEBRUARY 2023

Low Inventory Once Again Spurs Increased Competition for Homes in the GTA

February 2023 Greater Toronto Area Market Statistics

During the month of February, the housing market in the Greater Toronto Area (GTA) experienced a noticeable revival, characterized by a surge in property values across all asset classes. Notably, the average sales price for all property types increased by 5.4% when juxtaposed with January's data, culminating in a February average sales price of $1,095,617.

The gains in property values were observed across all asset classes, with the detached market realizing an impressive uptick of 7.2%, resulting in an average sales price of $1,439,735, the largest increase since January 2022. Similarly, the condominium market increased month-over-month with an appreciation of 2.5%, translating into a final average sales price of $705,472 for the month of February. Pressure on inventory led to a substantial drop in average days on market which now sits at 22 days, the lowest since August 2022.

Market activity also increased, as evidenced by a substantial improvement in both sales and inventory in comparison to January. The number of properties sold reached its highest level since November 2022, with 4,783 homes changing hands. Concurrently, inventory levels continued to rise, with 9,643 active listings across the GTA's housing market. That said, transactions continue to lag as compared to the level of activity we have seen over the past several years. As fewer homes change hands, demand from those who in the medium-term anticipate participating in the housing market continues to build.

The positive February data bodes well for the rest of 2023 and beyond, indicating the return of stability and significant demand that will propel the market higher as consumer confidence continues to rise. As we move into the spring, more inventory will be welcomed by eager buyers who have been stymied by an ultra-low inventory environment.

"Views on real estate have consistently been a foundational element in consumer confidence," said Nik Nanos, chief data scientist of Nanos Research. "Although not returning to the exuberant levels from a year ago when the housing market was red hot, the weekly tracking is seeing the beginnings of a potential positive trajectory."

As the trajectory of the market moves in a positive direction and sale prices start to tick upward, we anticipate more sellers re-entering the GTA housing market in the coming weeks.

Pent-Up Demand for Homes Continues to Build

Eight successive interest rates hikes in the past year, while necessary to cool inflation, have created some unintended consequences which in the medium to long-term will put additional strain on the GTA's already tight housing supply.

Buyers who are taking a wait-and-see approach will be faced with increased competition when they do return to the market.

Increased immigration, fewer than necessary building starts, changes to household formation trends, particularly among millennials, are building demand that will be unleashed on the housing market in the next few years.

"With the expectation that interest rates could fall in 2024, the short-term relief in house price inflation that big cities across Canada are experiencing right now is blinding policymakers to the medium-term crisis", Phil Soper, President and CEO of Royal LePage recently shared with the Toronto Star.

The Toronto Regional Real Estate Board shares the same sentiment. "As we move toward a June mayoral by-election in Toronto, housing supply will once again be front and centre in the policy debate. New and innovative solutions, including the City of Toronto's initiative to allow duplexes, triplexes and fourplexes in all neighbourhoods citywide, need to come to fruition if we are to achieve an adequate and diverse housing supply that will support record population growth in the years to come," said TRREB Chief Executive Officer John DiMichele.

FEBRUARY SALES ACTIVITY

YEAR OVER YEAR CHANGE

-47.0%

MONTH OVER MONTH CHANGE

54.3%

FEBRUARY AVERAGE PRICE

YEAR OVER YEAR CHANGE

-17.9%

MONTH OVER MONTH CHANGE

5.5%

The average selling price was $1,095,617 as compared to $1,038,668 the previous month. The average price is below last year's average of $1,334,062.

The average number of listing days on the market was 22, up down from 29 in January 2023. Total active listings were up 38.1% year-over-year, and new listings were down 40.9% year-over-year, from 14,153 in February 2022 to 8,367 in February 2023.

Benchmark price by home type (all TRREB reporting areas):

- The benchmark price for detached homes was $1,385,000, 19.6% lower than in February 2022.
- The benchmark price for attached homes was $1,055,900, 18.7% lower than in February 2022.
- The benchmark price for townhouse homes was $796,400, 15.5% lower than in February 2022.
- The benchmark price for condo apartments was $695,000, 10.8% lower than in February 2022.

Average price by home type (416 and 905):

- The average price for detached homes was $1,439,735, 20% lower than in February 2022.
- The average price for semi-detached homes was $1,069,266, 21% lower than in February 2022.
- The average price for townhouse homes was $934,834, 17% lower than in February 2022.
- The average price for condo apartments was $705,472, 12% lower than in February 2022.

AVERAGE PRICE BY MAJOR HOME TYPE

$1,439,735 DETACHED	**$1,069,266** SEMI - DETACHED
$934,834 TOWNHOUSE	**$705,472** CONDO

Average Price

BY MAJOR HOME TYPE

DETACHED	FEB SALES	JAN AVG PRICE	FEB AVG PRICE
416	482	$1,486,124	$1,712,364
905	1,593	$1,298,809	$1,357,245

SEMI-DETACHED	FEB SALES	JAN AVG PRICE	FEB AVG PRICE
416	144	$1,150,506	$1,280,380
905	255	$949,216	$950,049

TOWNHOUSE	FEB SALES	JAN AVG PRICE	FEB AVG PRICE
416	161	$981,187	$1,005,342
905	660	$866,458	$917,634

CONDO	FEB SALES	JAN AVG PRICE	FEB AVG PRICE
416	952	$711,171	$728,271
905	503	$646,715	$662,323

Market Stats

FEBRUARY 2023

GREATER TORONTO AREA

8,367

NEW LISTINGS

February 2022 14,153 - 40.9 %
January 2023 7,688 8.8%

-40.9%

$1,095,617

AVERAGE SALE PRICE

February 2022 $ 1,334,062 -17.9 %
January 2023 $1,038,668 5.5 %

-17.9%

22

DAYS ON MARKET

February 2022 9 144.4%
January 2023 29 -24.1%

144.4 %

4,783

\# OF SALES

February 2022 9,028 -47.0 %
January 2023 3,100 54.3%

-47.0%

9,643

ACTIVE LISTINGS

February 2022 6,984 38.1%
January 2023 9,299 3.7%

38.1%

When the dam breaks: Pent-up demand for housing is growing and it could lead to a ‘bigger than ever’ crisis.

High rates have cooled the market for now, but what happens when a wave of eager buyers step off the sidelines and find a chronic shortage of housing?

Andy Yang, 20, appreciates he’s one of the lucky ones. In a city that has seen some rents nearly double in the last year, his London, Ont., landlord hasn’t raised the cost of the townhouse Yang shares with two other students.

He is also hopeful that he will own a home in the future after graduating from the Ivey Business School into a job in real estate or consulting. “I think I will own a house in the future if I’m being optimistic … But that will take a little while and I will probably also need financial support, like probably some money from my parents or a line of credit of some sort,” he said.

A third-year student, Yang is probably about a decade off his own home search. By the time he hits the market he will likely be part of the pent-up demand for housing that is already building as buyers wait out the Bank of Canada’s rate climb regimen and developers put their projects on pause.

A year of rate hikes is expected to keep the housing market cool for at least the first half of 2023. But what stops the market from reigniting given an anticipated influx of immigrants and a huge cohort of millennials in the thick of their family years at a time when the GTA is experiencing a chronic housing shortage?

Some experts argue there is a medium-term crisis brewing as the central bank’s interest rate policy also appears to be delaying housing starts at the very moment when government is desperate to speed up construction.

There is little expectation that buyers will come roaring back to the housing market at pandemic levels this year. It’s more likely they will start to trickle off the sidelines in the second half of the year, say the forecasters.

That just gives the demand more time to build, said Royal LePage CEO Phil Soper. He says there was too much pent-up housing demand going into the pandemic for it to be satisfied between spring 2020 and the first quarter of 2022, so the longer the market sits dormant, the more demand is building on top of that residual appetite for housing.

Some pent-up demand is already playing out in the rental market, where vacancy rates have shot up to squeezed pre-pandemic levels and the GTA saw double-digit rent increases last year.

But developers are also holding out for rates to stabilize and buyers to come back before they launch new projects, said Shaun Hildebrand, president of Urbanation, a market research firm that tracks development.

In the short term there are enough condos on the market to satisfy the lowest demand in nearly 20 years, he said.

However, Hildebrand said, “The current level of activity is much too low for a population the size of the GTA. So we will inevitably start to see more activity occur, but it’s not going to be a big opening of the floodgates, at least on the ownership side.”

The pressure will be on the renter side as new immigrants tend to rent in their first few years. In three or four years, renters will also be facing a shortage from the units that are currently being delayed by developers, who don’t want to launch in a down market.

Shaun Cathcart, director and senior economist at the Canadian Real Estate Association, says there’s another wild card in the market turnaround — demand from equity-rich existing homeowners, who have smaller mortgages but have been waiting out the heated competition of the last few years.

The medium and longer term are harder to see but, without enough new homes to supply the growing population, it’s not clear what will stop prices from accelerating at uncomfortable levels again, say experts like Mike Moffatt, an assistant professor at Ivey and senior director of policy and innovation at the Smart Prosperity Institute.

He thinks it’s a valid concern and he worries the prospect of unaffordable homes is already being baked into younger generations.

Moffatt, who spends a lot of time around senior and postgrad students just a little older than Yang, has detected a shift.

“The mood has changed from five to 10 years ago,” he said. “These guys expect to earn six-figure salaries. None of them think they’ll be able to afford a house, or at least not in Ontario. They all talk about moving either to the U.S. or Alberta, starting their careers there, because they’re like, ‘We just can’t make it here.’ ”

He doesn’t think the central bank’s January signal that it has put its rate hikes on hold will be enough to entice buyers back to the market immediately and that just kicks demand further down the road. Although Moffatt thinks the province’s target to build 1.5 million homes over the next decade is appropriate for the projected population growth, achieving it will be difficult.

“To give you an idea of how challenging that’s going to be, Ontario hasn’t even built 750,000 (homes) in any 10-year period since 1974 to 1983,” he said. “Basically, we have to do something that we haven’t done for decades and then double it.”

When it comes to pent-up demand, the head of the Toronto region’s homebuilders association says he can already see the danger. The 1.5-million provincial target could even be low, said Dave Wilkes, CEO of the Building Industry and Land Development Association.

“I do believe that we are currently falling behind. We don’t have the conditions to meet the projected demand,” said Wilkes, citing higher borrowing costs and weak market demand that is prompting developers to delay launching housing projects.

He says the building industry is at a turning point — not fighting for its survival, because homes will always get built, but nevertheless trying to reinvent itself to speed construction.

“The provincial government has begun down the road of changing the way housing is approved and built, the density that land is used for. Unless we have a really strong focus on that, we are going to be in that red zone,” said Wilkes.

Since the housing market slowed, the GTA has already added thousands of newcomers. Then there’s what Soper calls “the organic stuff” — a huge cohort of millennials who stayed in school longer, lived with their parents longer and now want to buy a home but don’t want to dip their toes in the high-interest-rate environment.

“The huge millennial generation, the largest in history, has yet to be unleashed on the Canadian housing market,” he said.

With the expectation that interest rates could fall in 2024, Soper says, “the short-term relief in house price inflation that big cities across Canada are experiencing right now is blinding policymakers to the medium-term crisis.

“It’s going to be bigger than ever,” he said.

Real estate association economist Cathcart agrees the demographics suggest pent-up demand.
“It’s not just the population growth. It’s the relentless household formation from baby boomers, gen-Xers and millennials, and now gen Z, just moving from their 20s into their 30s. It’s just relentless,” he said.

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