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Expect Toronto housing prices to stabilize in 2018 — but don't expect them to stay that way: CIBC

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Photo: James Bombales

The good news is that the combined effects of higher interest rates and new mortgage rules will see Toronto's housing market balance out over the course of 2018. The bad news? A serious lack of land supply coupled with a rapidly increasing population means it won't last.

At least, that's what CIBC Senior Economist Benjamin Tal has predicted in his latest report, released today.

Tal tells BuzzBuzzNews that 2018 will see Toronto's housing market soften as it adjusts to higher interest rates and new mortgage rules.

The new rules will require all uninsured borrowers to qualify against the Bank of Canada's five-year benchmark rate, or at their contract mortgage rate plus an additional 2 per cent.

The rules are intended to ensure that uninsured borrowers can withstand higher interest rates. The overnight rate — which influences mortgage rates and sat at a historically low 0.5 per cent earlier this year — has been raised 50 basis points since July, with some predicting a third hike on December 6.

“In Toronto, there are several factors that will lead to a balanced market in 2018,” Tal tells BuzzBuzzNews. “Higher interest rates, plus some overbuilding in the condo market, will cause the market to stabilize in 2018.”

But Tal says the stabilization will be short lived, as land supply remains relatively scarce in the GTA, and buyers continue to demand low-rise homes.

“Without dealing with the real fundamental issues facing the GTA, these [policy] changes are able to provide only temporary relief,” he says.

According to Tal, the GTA is facing a significant and worsening lack of land supply, as provincial growth policies limit how quickly serviceable land becomes available.

Of the 338,000 hectares that the plan effects, only 15 per cent is designated for low density residential development. Lengthy applications processes mean it could take years for it to come onto the market.

“The widening gap between population growth and the ability of the region to supply the necessary land to house that growth means that more pressure will be directed at the built-up area to close the gap,” says Tal, explaining that the rental and condo market will face increasing pressure in coming years.

He adds that buyers will eventually have to come to terms with the fact that they won’t be able to afford their dream detached home. “Not everyone is going to be able to live in a house,” he says.

Tal also believes that demand for housing has been consistently understated, given that the federal government’s plans to increase its immigration quota to 450,000 in coming years.

“Land use plans made more than a decade ago do not fully capture that image,” he says.

The bottom line? Without significant changes to land and rental policies, or a dramatic switch in buyer preference away from low rise homes, Tal believes in a few years Toronto could become more unaffordable than ever before.

“If you look at the long term trajectory, and where prices will be say 10 years from now, I think they will be increasingly more and more unaffordable to the average Canadian,” says Tal.

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