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Toronto housing market's downturn may have an upside



Toronto Real Estate Board says sales were down 39.3 per cent year over year in the first 14 days of July. But the conditions aren't there for a major market correction in GTA real estate, according to some. (Richard Lautens / Toronto Star)

By Tess Kalinowski Real Estate Reporter

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Royal LePage CEO Phil Soper says that, like a lot of chief executives, he is prone to optimism.

But that didn't stop him from calling Toronto the least healthy housing market in the country when prices were galloping ahead in the double digits in the first quarter of the year, peaking at 33 per cent year over year in March.

Soper says it's not self-interest as a realtor that leads him to believe that Toronto's slumped market will recover in the same way as Vancouver's has. That market has lately rebounded after the B.C. government imposed a foreign buyers tax last summer, paving the way for Ontario to introduce a similar levy on non-resident transactions.

But does the situation today resemble the last big Canadian housing correction in 2009? Is it a crash rather than a bump? Soper doesn't think so.

The last major national housing correction followed the global economic crisis in 2008. The conditions simply aren't there this time for a major market meltdown in Canada, says Soper.

“It’s very rare to see employment improving, the economy expanding — to see inflation under control and to see a significant collapse of the housing market,” he said.

But he doesn’t deny there are unknowns — NAFTA, for example.

“The most obvious external downside risk is the trade negotiations between Canada and the U.S.,” he said.

“A significant negative outcome on trade wouldn’t have immediate impact on our economy, but it would have immediate impact on consumer confidence.”

Nor does Soper suggest that the recent Vancouver correction wasn’t serious.

“People say it wasn’t that bad (in Vancouver) because prices were only down by a couple of percentage points,” he said. “But they were going up by 30 per cent, so the trend reversed itself by some 30 to 35 per cent in weeks.

“It was a very significant change in the direction of that market and a significant downturn.”

Royal LePage calculates that the Vancouver housing correction took about \$750 million out of the economy in ancillary spending such as home renovations, furnishings and lawyers fees.

In Ontario, the slowdown will continue for a while, says Lu Han at the Rotman School of Management at the University of Toronto.

“The (Toronto area) market still needs time to absorb how the buyers and sellers are going to react to the policy,” said Han, who’s the academic director for the Centre for Real Estate and Urban Economics.

Toronto Real Estate Board’s mid-month numbers for July show sales down 39.3 per cent year over year in the first 14 days of the month. On Monday, the Canadian Real Estate Association said a 15 per cent drop in sales in June in the Toronto region led to the largest decline in national sales in seven years.

Provincial Liberal government policy, along with tighter lending restrictions and rising interest rates makes consumers more anxious in the short-term, but are all designed to ease affordability challenges longer term, says Han.

“The rising interest rate will increase the costs for borrowing, but the house price is going to be reduced in the longer run as a consequence of these policies. So, in that sense, it is going to make housing more affordable in the future,” she said.

While some sellers and buyers may have been caught in the sudden turnaround of the market this spring, the pause in the market frenzy is welcome, says James McKellar, a professor at the Schulich School of Business at York University.

“When I say this downturn is good news, I mean it begins to challenge some assumptions we’ve made that the house price will go up — that we can always

afford more, that we can consume more,” he said.

In the 1950s, Canadians consumed about 300 sq. ft. of space per person. Today it is about 1,000 sq.ft.

The correction also gives governments some breathing room to reconsider the supply part of the equation, said McKellar.

More people, including the growing number of tech and creative sector workers, want to live in cities. Governments need to re-think what living there looks like apart from condo towers.

“On the one hand the province is saying 40 per cent of all growth must be directed into inner cities and, on the other hand, the city is saying we have to protect existing neighbourhoods. There’s a conflict at the policy level. We’re protecting these old neighbourhoods but we’re not re-generating them with new people,” he said.

McKellar contends that the current scenario has come as a shock because most Canadians don’t remember or have never seen it before. (He calls the 2008 housing market “a slight downturn.”)

“We haven’t had a downturn really since 1991. It took from 1991 until 2004 for house prices to recover. The problem is that most of us have thought the good times go forever. This is a good signal that gravity still exists,” he said.

Toronto realtor John Pasalis doesn’t discount the role of the press and social media in the almost overnight drop in home sales. Headlines about crashes and bubbles make consumers anxious.

“It probably pulled many buyers out of the market. In the past, when news wasn’t as timely and everyone relied on what friends were saying, it prolonged the run-up,” he said.

Pasalis was among the first Toronto-area realtors to raise concerns about the sustainability of the double-digit increases in the Toronto market. But he’s adamant that the doomsayers suggesting that values will decline severely are wrong.

“We’d have to have a massive depression,” he said.

He thinks the market will remain soft through the fall, but says there are signs that buyers are starting to look again and get ready to dip back into the market.

“The big unknown is what the listings are going to be like in the fall. I think we’re going to see a lot of new listings in the fall. A lot of the people who can’t sell now are going to re-list,” he said.

“If listings increase more than buyers increase you’re still going to have a soft market,” said Pasalis.

Whatever happens the rest of the year, Toronto housing is probably a safe bet, said Han.

“Toronto is a very attractive destination. It offers great consumption amenities but also great job opportunities,” she said. “When people try to buy a house here they’re not just buying a physical house, they’re buying this location — they’re buying the whole package including the infrastructure in the city, the transportation here, all the culture, the amenities here.

“That itself is a very strong fundamental that would sustain the house price growth here.”

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