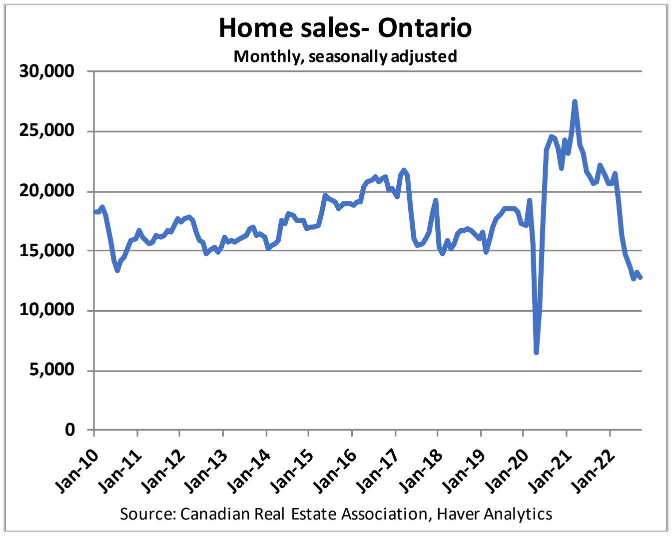
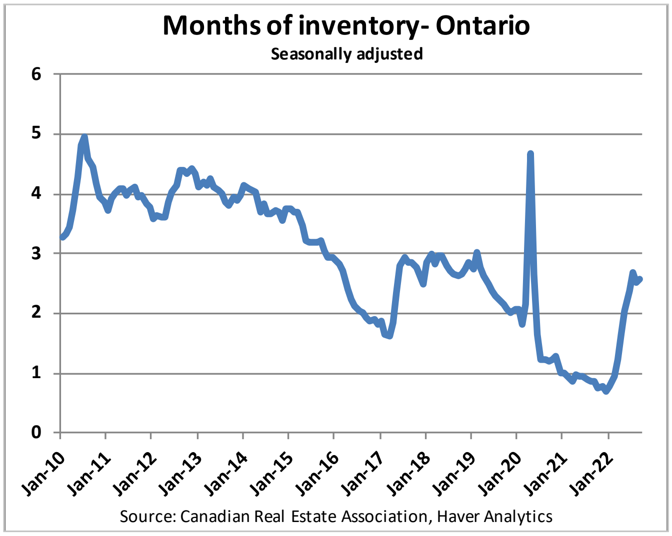
Ontario

Housing and Mortgage Market Review

Rising rates continue to weigh on housing demand

Rising mortgage rates and deteriorating affordability remain a real challenge for housing markets in Ontario. Seasonally adjusted home sales slipped 13.7% in the third quarter across the province. Outside of the early days of the COVID pandemic, last quarter saw the lowest level of housing demand in over a decade.





Inventory levels continue to rise, albeit at a much slower rate than earlier this year. Active listings were up 83% year-over-year in Q3. Months of inventory, a crude measure of supply and demand, has risen from a low of 0.7 at the end of 2021 to 2.6 today. That's a big move, to be sure, but some perspective is required. Over the long term, Ontario has averaged a little over three months of inventory at any time. In other words, even with a sharp slowdown in sales and a near doubling of inventory, we're still not back to "normal" market balance.

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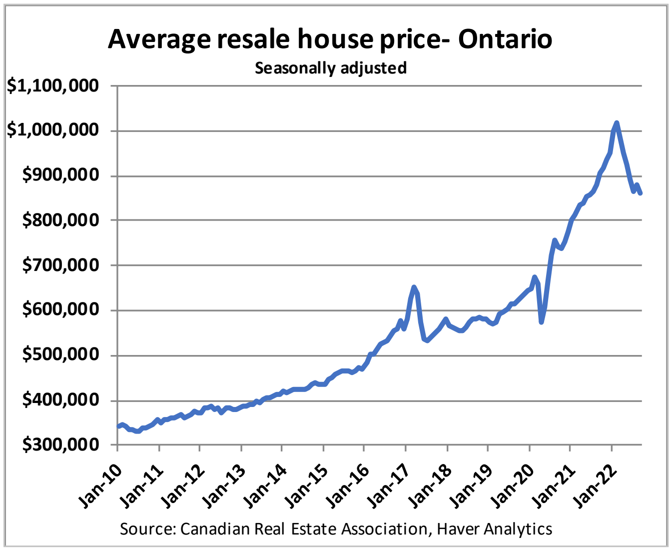
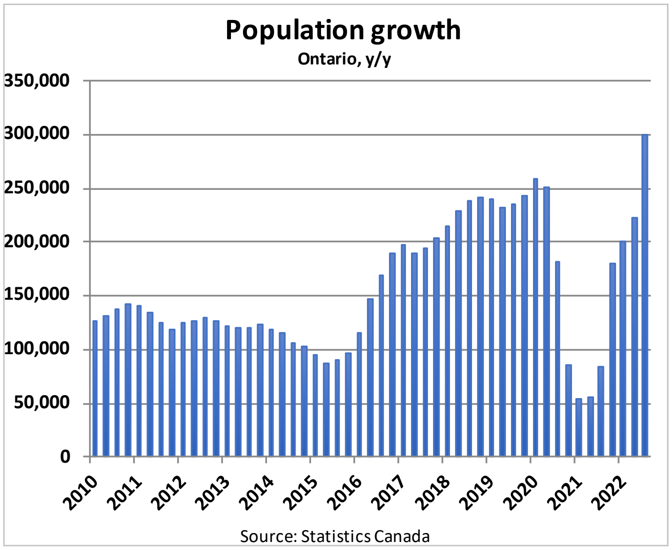
New listings have slowed significantly in recent months and are now 4% below 10-year averages. Despite rising rates, there are still no signs of distressed selling on a large scale.

Seasonally adjusted average resale prices slid 3.5% in the third quarter, building on the 10.1% decline in Q2.

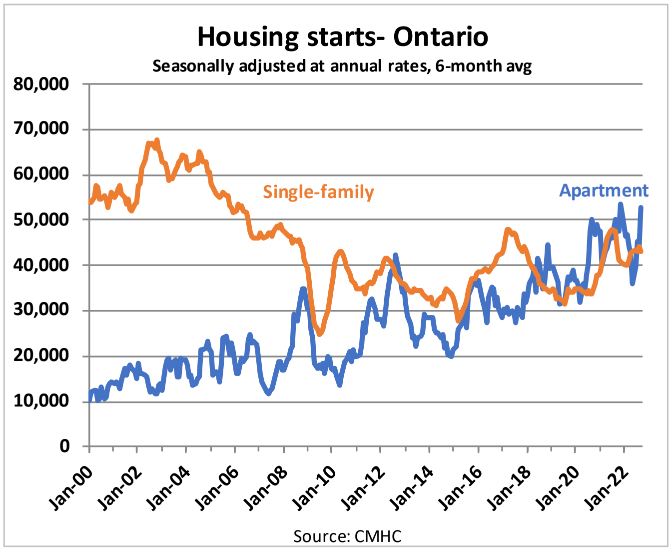




Population growth sets a record in Q3

Ontario added a record 300,000 people to the population in the past year as of Q3.

Housing starts surged 25% in the third quarter due largely to a nearly 60% increase in apartment starts. Of note, single-family starts are still barely above decade averages despite tremendous population growth.



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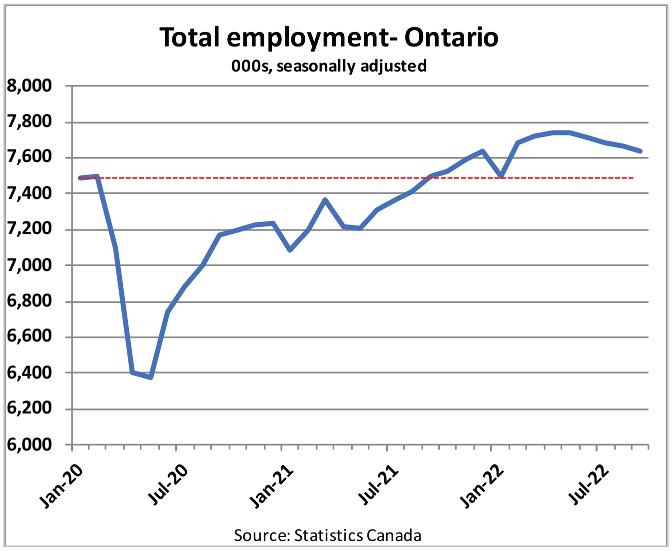
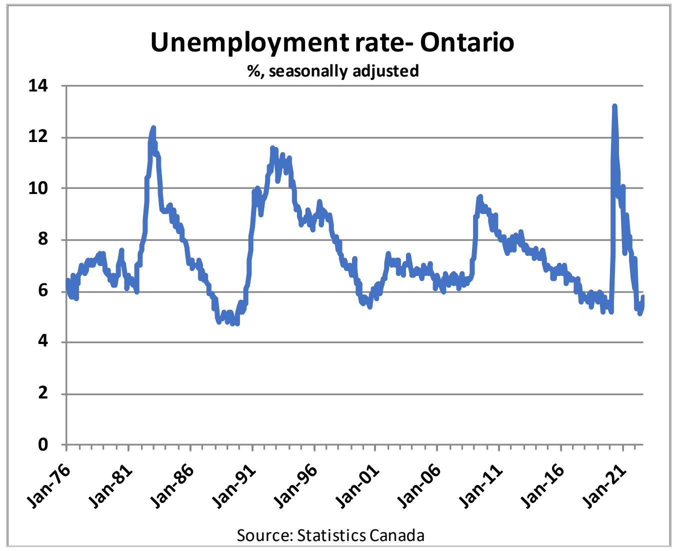
Job losses are beginning to mount

Ontario's labour market continued to struggle, shedding 78,000 jobs last quarter. This builds on the 9,000 lost in Q2, and it pushed the unemployment rate up to 5.8% from 5.1% previously. That sounds like a significant deterioration, but unemployment is still near all-time lows and the labour market overall remains very tight. Still, it's likely an early indication that rising rates are beginning to constrain economic activity. Expect this trend to continue into 2023.





What it all means: Housing markets across Ontario remain in an adjustment period as borrowers wrestle with severe affordability constraints caused by rising interest rates. Sellers, for their part, are trying to navigate a rapidly shifting market, and many are evidently choosing to pull listings off the market, perhaps waiting for better conditions. This "standoff" may last a few quarters yet until the Bank of Canada finally signals an end to the rate hikes or more sellers return to the market.

Rates and affordability may constrain demand for a while yet, but population growth will ultimately underpin the market over the longer term.

**Any forecasts contained in this report are accurate as of the date indicated.*

Ben Rabidoux is the founder of Edge Realty Analytics (www.edgeanalytics.ca), which equips top real estate and mortgage professionals with timely research and insightful marketing infographics to help them stand apart from the competition and stay engaged with their clients and prospects.

He is also the founder and president of North Cove Advisors, a market research firm serving institutional and high net worth clients since 2013 that is consistently ranked top 5 for Canadian economic coverage by Brendan Wood International.

He is a frequent guest and contributor in major media outlets, including Bloomberg, The Wall Street Journal, Reuters, The Globe and Mail, The Toronto Star, Macleans, and many others.