



Parsing GTA's July resale drop

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Last month I suggested that the story of the 2010 resale home market in the Greater Toronto Area (GTA) would be a tale of two halves. Through the first seven months of this year, sales are up 12 per cent compared to the same period in 2009 (56,829 sales this year vs. 50,632 last year). The annual growth in resale home transactions experienced this year took place during the first four months. Since May, sales have been lower compared to the same month in 2009. Jason Mercer, the Toronto Real Estate Board's Senior Manager of Market Analysis, points to a few issues that have resulted in the dip in sales over the past few months.

"Given the current population level and the historic number of existing home sales per capita, total resale home transactions in the 80,000 to 90,000 range for 2010 would make sense. However, monthly sales levels between June 2009 and April 2010 were suggesting an annual pace of well over 100,000 sales," said Mercer. "Two things were at play. First, we saw pent-up demand from the recession quickly satisfied in the second half of 2009. Second, we saw households pulling their buying decision forward to get ahead of anticipated interest rate hikes in the summer of this year."

With sales that otherwise would have been more evenly distributed throughout the year pulled forward, it makes sense that we will experience a balancing out in the second half of 2010 or even into 2011. During my time working in the GTA real estate market, the level of transactions has always gone through a balancing out period after moving too far above or below the long-term trend dictated by population growth.

The annual dip in sales we have experienced since May has garnered quite a bit of attention. A common argument has been that fewer transactions will directly translate into lower selling prices. This is not necessarily the case. Jason Mercer explains that it is the relationship between sales and listings that influences price growth.

"If the level of sales drops rapidly relative to the level of listings, buyers have much more bargaining power, so the average selling price can drop. This is what happened at the end of 2008 and beginning of 2009," Mercer said. "The situation has unfolded differently over the last couple of months in the GTA. While sales dropped quite a bit in June and July, the number of new listings has also come down. This means that there has still been quite a bit of competition between buyers. This is why average prices have continued to be higher than those reported at the same time last year."

"On top of the fact that there remains enough competition between buyers to support price growth, it should also be noted that home ownership remains affordable in the GTA," continued Mercer. "The share of the average gross household income in the GTA going toward mortgage principal and interest, property taxes and utilities remains in line with mortgage lending guidelines."

I think it is clear that we will not experience record-setting sales through the balance of 2010. Sales over the past 12 months have been well above the per capita levels we have historically seen. The trend for new listings has followed the sales trend meaning that there have been enough buyers relative to sellers to sustain growth in average selling prices. It will be important to follow this demand and supply relationship along with changes in affordability over the next few months to better understand the prospects for price growth over the next year.

Bill Johnston is President of the Toronto Real Estate Board, a professional association that represents 30,000 REALTORS® in the Greater Toronto Area.

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