Tight resale market raises prices 5%

Bill Johntson | TREB PRESIDENT'S COLUMN AS IT APPEARS IN THE NATIONAL POST | December 6, 2010

Toronto Real Estate Board (TREB) members reported 6,510 sales in November, representing a 13 per cent decline from the record level of sales reported in November 2009. The year-over-year decline in sales was matched by an identical dip in new listings, which means the market remained tight enough to promote continued price growth. The average selling price in November was $438,030 – up five per cent compared to November 2009.

While the number of transactions continued to be lower in comparison to last year's record results, it is important to note that we have seen positive momentum for existing home sales since July. The seasonally adjusted annual rate of sales increased for four straight months, from the July low of 67,900 to 88,100 in November.

I asked Jason Mercer, TREB's Senior Manager of Market Analysis to comment on the improved market conditions over the past few months. He said that "a combination of factors, including interest rate hikes, new federal mortgage lending guidelines and misconceptions about the application of the HST to resale housing resulted in a dip in home sales during the spring and summer.

"Since May, however, the average rate on a five year fixed mortgage has dropped by approximately one-percentage point. On top of this, many more households are aware that the HST does not apply to the purchase price of a resale home. The result has been a resurgence in existing home sales," continued Mercer.

As a practicing REALTOR®, one of the indicators that I have followed consistently over time has been the relationship between sales and listings. On a seasonally adjusted basis, sales have increased relative to new listings since June. This means that we have seen fewer listings for buyers to choose from, leading to continued growth in the average selling price. While current market conditions are not as tight as they were at the end of 2009, there is still enough competition between buyers to exert upward pressure on home prices.

Some recent commentaries have suggested that the current existing home selling price is too high in the GTA and that further price increases are not justified. According to Jason Mercer, this argument breaks down when we look at the full affordability picture.

"Many commentators have used measures like home price-to-income or home price-to-rent ratios in arguing that resale housing is overvalued in the GTA and other parts of Canada. Unfortunately, these analyses have left out the mitigating impact of interest rates. It is important to consider interest rates because the majority of home buyers use a mortgage to purchase a home. Today, the average household in the GTA can comfortably afford the monthly payments covering mortgage principal and interest, property taxes and utilities," said Mercer.

"Home ownership is expected to remain affordable in 2011, allowing for moderate single-digit rates of home price increases over the next year," continued Mercer.

Even with the dip in sales experienced in the spring and summer, we remain on track for one the best years ever for the Toronto Real Estate Board.

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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