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GTA HOUSING PULSE

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BUBBLE TROUBLE IN ONTARIO? A COMPARISON OF HOME PRICE GAINS NOW AND DURING THE MID-1980S CYCLE IN ONTARIO

The Bank of Canada quietly called the Greater Toronto Area (GTA) and Hamilton real estate markets "exuberant" in its June Financial System Review, which is economist nerd-code for "bubble".

Meanwhile, CMHC models show that both the GTA and Hamilton markets exhibited a high degree of vulnerability in the first quarter of this year.

We wanted to test the views of the Bank of Canada and CMHC for this Housing Pulse by analyzing how the performance of the MLS average sales price in the GTA and Hamilton compares to the housing cycle that lasted from 1984 to 1989, which was the last time these real estate markets experienced a bubble.

We also wanted to look at how real estate markets beyond the GTA but within the Greater Golden Horseshoe (GGH) are performing now versus then, given that the hot market activity was spreading geographically as households are being priced out of urban markets. We also look at whether there is more sprawl now, versus the mid-1980s.

We do this by indexing the MLS average sales price (adjusted for inflation) to 1.0 before each housing market cycle began. This has been set for December 1984 for the mid-1980s cycle, and December 2014 for this more recent cycle. We incorporate the Toronto Regional Real Estate Board and Realtors Association of Hamilton and Burlington data on the MLS average sales price up to June 2021.

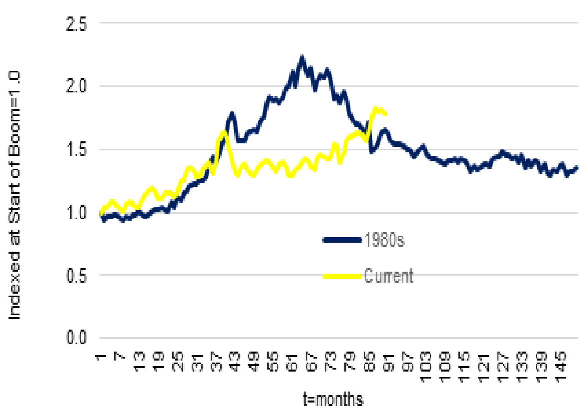
Figure 1 and 2 show the comparison of the real MLS average sales price patterns in the GTA and Hamilton, now versus then.

The data show the following:

- The current sharper-than-normal period of price appreciation has lasted for 6 years. The upside of the 1980s cycle lasted a shorter 5 years, while the downturn lasted almost a decade;

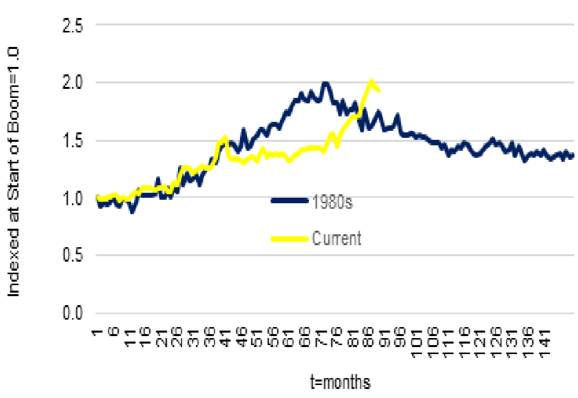
- The current cycle has had two waves. While the real MLS average sales price in both the GTA and Hamilton had a similar trajectory in

Figure 1: Real MLS Average Sales Price (2002 C$), Indexed to Beginning of Housing Cycle, Greater Toronto Area



Source: CUR, based on Canadian Real Estate Association data.

Figure 2: Real MLS Average Sales Price (2002 C$), Indexed to Beginning of Housing Cycle, Hamilton



Source: CUR, based on Canadian Real Estate Association data

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2015 as seen during the beginning of the 1980s cycle, a slew of government measures (mortgage regulation changes and the Non-Resident's Speculation Tax) helped hold prices at bay temporarily; and

- The real MLS home price appreciation in the GTA has not exceeded the 1980s peak, while MLS home price appreciation in Hamilton has already done so. Home prices have doubled since 2014 in Hamilton as of June of this year. The real MLS sales price doubled during the mid-1980s in the GTA, and has only grown by 1.7 of their pre-cycle levels as of June of this year.

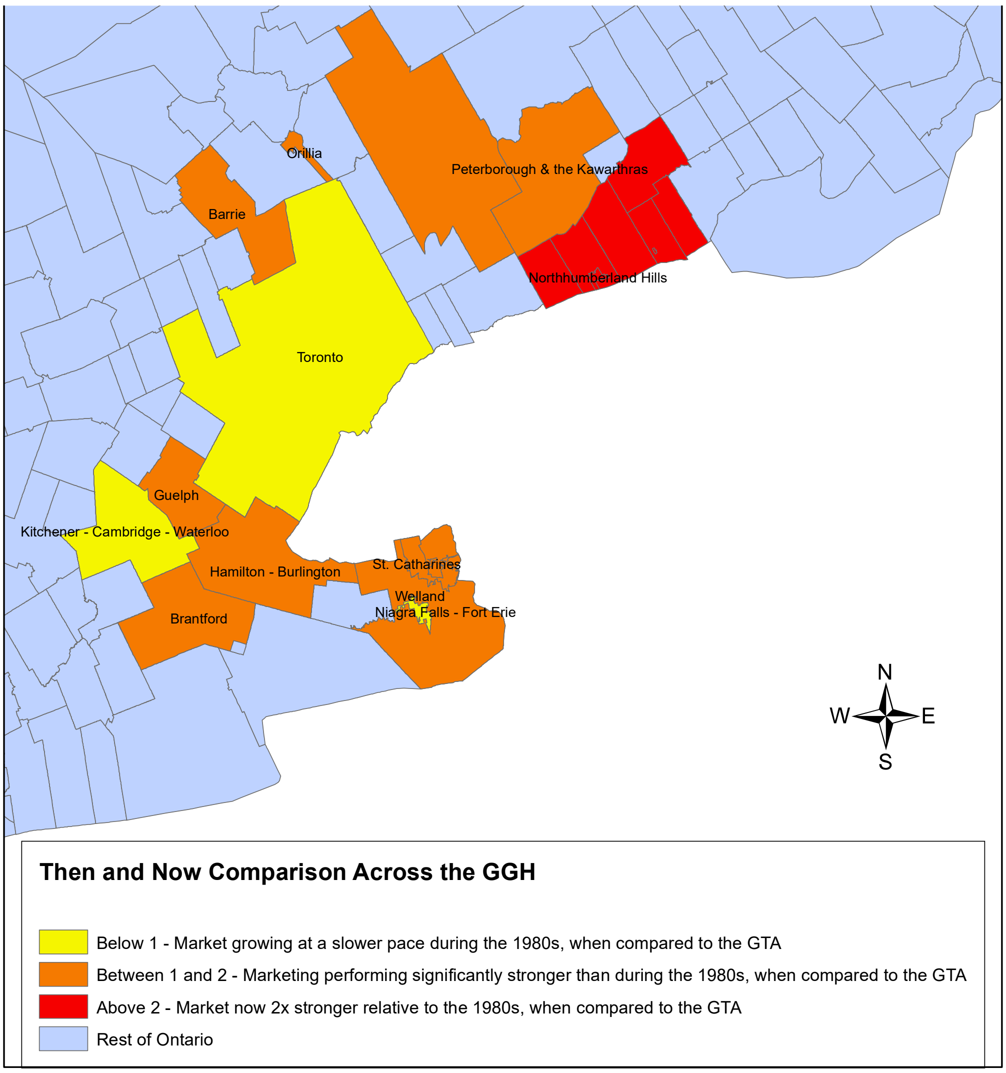
Figure 3 ranks how the real MLS average sales price is performing in other GGH markets compared to the GTA market, both during the current cycle and in the mid-1980s. Cities in the map are coloured coded based on how prices are growing now relative to the GTA, and compared to their relative performance in the 1980s. Yellow markets have not seen the same appreciation as in the 1980s. Orange markets are growing faster than the GTA in the current cycle, when compared to their 1980s performance. The relative performance of home prices in markets coloured red is twice that of the 1980s.

While most other GGH real estate markets grew at a similar or lesser rate than did the GTA during the mid-1980s, most markets have been significantly hotter than the GTA during this cycle, with Northumberland, Peterborough and the Kawarthas being the hottest of them all.

Conclusion

Policy makers can take a small sigh of relief as real estate market activity is starting to taper off and knowing that some of Ontario's largest markets haven't reached the same peaks reached during the 1980s bubble.

Figure 3: Performance of GGH Real Estate Markets Compared to the GTA During Booms



Source: CUR, based on CREA data. *covers the municipalities of Cobourg and Port Hope and stretches from the shores of Lake Ontario across the 401 as far north as Rice Lake, as far east as the Township of Cramahe (which includes the Village of Colborne) and as far west as the easterly limits of Highway 115 in Clarington (formerly the Township of Clarke).

There are still some similarities between the two cycles and some lessons to be learned. The root cause of both cycles were largely the same. Mortgage interest rates came down seven percentage points (from 18% to 11%) prior to the 1980s boom/bust cycle. Population growth boomed in the mid-1980s as individuals moved from around the country to Ontario looking for work and the boomers were aging into their home buying years. The combination of demographic demand and low interest rates failed to be met with an increase in housing supply, contributing to a sharp acceleration in home prices that increased real estate market vulnerability.

Fast forward to today. Mortgage rates fell from a peak of 6% in 2009 to 1.7% now. Demographic demand is booming, owing to the aging of Millennials and high immigration that is boosting population across Canada as a whole. And, of course, housing supply (particularly single-family homes) is not keeping pace with said demand. This time, however, there is significantly more population movement out of urban centres as households look for more affordable ground-related housing. As such, the surge in average prices during this cycle is greater in markets outside the GTA.

A primary cause of this wider dispersal of demand is the direct result of the land-use planning framework introduced in the mid-2000s, which discouraged the construction of ground-related homes, especially single-detached houses, promoting instead the construction of new apartments.

Lesson learned: a more nimble housing supply could help avoid “bubble-like activity” in the face of major demographic shifts.