5 Unbelievable Facts About the Toronto Real Estate Market

Description

There might not be a topic more contested in the financial community than the future of the Toronto housing market.

Bulls point to low interest rates, crazy bidding wars for desirable neighborhoods, and a steady stream of new people moving to the city as proof the market is in great shape. A steadily rising price is the result of a healthy market.

Meanwhile, bears look at factors like record high price-to-income ratios, impending rate hikes, and record consumer debt levels as evidence the madness just can't continue. They contend the market is primed for a correction, perhaps even a crash. It just needs a catalyst.

It's obvious the market is stretched, it's only a matter of when the party decides to come to an end. It could stop soon, or it could go on for another few years; nobody really knows a timeline for such things.

Here are five facts about the Toronto market that should give everyone pause.

1. 56,000 condos

At the end of 2014, there were more than 56,000 condos under construction in Toronto. That's far more than what's being built in other cities with a greater population like Chicago, Los Angeles, or New York. As a comparison, during most of the 1990s the city hovered around 10,000 condo starts.

2. $1 million average price

In February Toronto reached a milestone that had previously only been reserved for some of the most expensive cities on the planet. The average price for a detached home in the city limits surpassed $1 million. That still hasn't slowed down buyers, since multiple-offer situations are still common.

3. 50% in five years

In 2010 the average price for a Toronto property (including condos) was hovering around $430,000. In just five years, that average has rocketed up more than 50%, recently almost hitting $650,000.

The last time the market moved that quickly was back in the late 1980s, with the average price hitting a peak of $273,000 in 1989. The average value didn't top $270,000 again until 2004.

4. 39,000

The number of sales in the Toronto market has more than tripled since hitting a low of 26,700 transactions in 1990, right after the 1989 bubble popped.

That's created a lot of jobs selling houses. According to the Toronto Real Estate Board, there are currently more than 39,000 realtors currently working in the city. That's one realtor for every 140 residents.

5. 8.9 times

According to Statistics Canada, the average Toronto family earned $72,830 in 2013, the most recent year for which statistics are available. During May 2015 the average price of real estate in the city was $649,599. That puts the price-to-income ratio at an eye-popping 8.9 times, which is a record high.

Back when real estate in Toronto was more reasonably priced in the 1990s, the price-to-income ratio was between four and five times. That means there could be a whole lot of downside as prices correct.

How will it affect your portfolio?

My first step would be to minimize any exposure I had to the market. If I owned an investment condo or was looking to downsize, I'd sell immediately.

For stock market investors, the first step is to sell shares of **Home Capital Group Inc.** (TSX:HCG), Canada's largest subprime lender with approximately 90% of its portfolio in southern Ontario. It also just pre-released very disappointing second-quarter numbers, which showed a big slowdown in new loans.

Home Capital also said it gave the boot to some of its mortgage broker partners, citing concerns about the quality of loans they were sending the company's way. Both pieces of news sent shares reeling more than 20% over the last week.

There's even the case for investors to avoid the Canadian banking sector altogether. Each of Canada's Big Five banks have significant exposure to Toronto. A long-term decline in the market there won't be good, causing profits to decline as mortgage originations slump and losses pile up.

And finally, investors should also avoid **Genworth MI Canada Inc**. (TSX:MIC), the privately held mortgage default insurer. It has significant exposure to the overheated Toronto market, and has long been rumoured to be more lax than CMHC in approving loans. Even if that's not true, it's still a stock you don't want to hold during a housing bust.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

Category

1. Bank Stocks
2. Investing

Date
2025/08/26
Date Created
2015/07/17
Author
nelsonpsmith