New Housing Data: Is the Market Really Out of Control?

Description

Statistics Canada just released new housing data that extends to September 2021. The survey covers all Canadian municipalities that issue permits. Specifically, it accounts for 95% of the Canadian population, covering all the provinces and territories.

At first glance, it appears that the single-family housing market has gone nuts! Permit value for single-family buildings have seemingly experienced crazy growth in the last year.

Though permit value for single-family buildings was up just 6% in September year over year, they were up 50% in June and a whopping 150% in April! Much of the high growth was apparently driven by the downturn caused by the COVID-19 pandemic in 2020. Though no one has a crystal ball, the single-digit growth rate in September could be the start of more reasonable growth.

Single-family buildings	Jan/21	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Y/Y change in permit value	50%	43%	98%	151%	59%	50%	24%	24%	6%

Source: Statistics Canada data with growth rate rounded to the nearest percent

We all know that we cannot simply compare year-over-year data and conclude that the housing market is in a bubble or is out of control. The three-year growth rate also looks high. The total value of single dwelling permits was up 43% over the period, equating to an annualized growth rate of almost 13%.

Even data observed over three years cannot be conclusive, though. Zooming out to five years, interestingly, the increase was just 11% (or a growth of nearly 2% per year). This comfortably aligns with the long-term targeted rate of inflation. What about data over the last decade? The permit value growth approached 38% (or 3.2% annually). Again, this aligns roughly with the long-term rate of inflation of about 3%.

While there may certainly be room for the building market to cool down in the near term, perhaps surprising to some, the broader context over a market cycle paints a reasonable picture. It’s just that the year-over-year data is unbelievable.

What does it mean to you?

At the end of the day, it boils down to your mortgage, how much you owe, and what the mortgage rate is. A five-year fixed mortgage rate is going for about 2.4% in Toronto, whereas a variable mortgage rate for the same term is only about 1.4%. As usual, variable rates tend to be cheaper. Even with the closing of the quantitative easing by our central bank, which hinted at rate hike(s) in the second half of next year, it would take one to two years for the variable rate to catch up to the current fixed rate.

Homeowners should focus on paying off their mortgage diligently. Give yourself ample time to shop for the best rate months before you actually need to renew your mortgage. The Government of Canada provides useful tips on paying off your mortgage faster, including making additional mortgage payments whenever you can.

Renters should be aware of upcoming rate hikes, which will eventually trickle down to higher mortgage rates that could be passed on to you as rent increases.

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