REAL ESTATE MARKET REPORT
MAY 2022: **TORONTO REGION**

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There were no surprises in the May residential resale market data. As a result of rising mortgage interest rates, a process that started in March, the number of properties sold has declined, and average sale prices have moved downward from the record-breaking highs of February.

During the month of February 9,052 homes were reported sold with the Toronto and area's average sale price coming in at an eye-popping, unsustainable, $1,333,399. In May 7,283 properties were reported sold, with an average sale price of $1,212,806. Since February, sales have declined by more than 19 percent, and the average sale price for all properties sold, including condominium apartments, has slipped by 9 percent.

It should be noted that even with this decline, the average sale price in May remains 9.4 percent higher than that achieved last May ($1,084,124).

A notable shift in market dynamics is the change in activity in the 905 region as compared to the 416 (City of Toronto). Throughout the first two years of the pandemic, more sales were taking place and average sale prices were rising faster in the 905 region. This is no longer the case. During the month of May, the average sale price for all properties sold in the 905 region came in at $1,212,806, 1.7 percent less than the City of Toronto's average sale of $1,233,748. The ratio of sales has also shifted. Last year the 905 region accounted for 66 percent of all properties reported sold. This May, only 62 percent of all properties changing hands were in the 905 region.

These results are not surprising. As more of the greater Toronto area's population has been vaccinated against the Covid virus, and as the City of Toronto with its many amenities has opened up, the forces driving buyers to move to the 905 region, the need for more space, ground-level housing, and a sense of safety in less dense communities have begun to wane.

May's market performance should not be misinterpreted as a market "correction". Most of the economic factors that drove the resale market through the pandemic, and even before, are still at play, primarily the lack of supply and immigration to southern Ontario. Separate and apart from declining average sale prices and unit sales, the market continues to behave as it did before mortgage interest rates began to rise.

In May 18,679 new properties came to market, marginally higher than the 18,593 that came to market last year. All 7,283 properties that changed hands in May did so after spending only 12 days (on average) on the market, marginally higher than the 11 days it took for properties to sell last May. All properties reported sold, sold for 103 percent of their asking price, 104 percent in the City of Toronto. Semi-detached properties in the City of Toronto sold in only 9 days and at 111 percent of their asking price. Semi-detached properties in Toronto's eastern trading districts sold at 117 percent of their asking price and shockingly after only 8 days on the market.

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This is not a market correction. Rather this data reflects a market attempting to come to grips with higher rates, with more to come. Higher mortgage interest rates have had a psychological as well as an economic impact on the market, particularly on those buyers that are mortgage-rate sensitive and struggling with affordability.

Based on May's performance it would appear that condominium apartment sales will outperform ground-level sales, detached and semi-detached properties. May saw 1,264 condominium apartment sales in the City of Toronto. They sold at an average sale price approaching $800,000. All these apartments sold at 103 percent of their asking price and in only 15 days, only 2 days longer than it took to sell last year. The average sale price for all condominium apartments reported sold last May in the City of Toronto was only $766,462.

At the other end of the market spectrum, properties having a sale price of $2 Million or more, the decline in sales was also not as severe as the overall market. Whereas the overall market declined by almost 39 percent, year-over-year, month-over-month, sales of $2 Million plus properties only declined by a little more than 22 percent, making it clear that not all sectors of the housing market are responding similarly to rising mortgage interest rates.

Looking forward, higher mortgage interest rates will cause average sale prices to decline, but marginally, plateauing during the summer months. The greater Toronto area, and in particular the City of Toronto, has a very high employment rate, and demand remains strong. Unless the Bank of Canada raises the benchmark rate to the point that it drives the currently strong economy into recession, the lack of supply and increasing demand will keep the market strong, and unfortunately unaffordable. When inflation subsides, and the benchmark rate declines, economic conditions and the housing landscape will be very similar to the tight market that existed just before the pandemic became a factor. So what we are witnessing is a hiatus in the housing market, not a correction.

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