

Toronto Challenging Vancouver for Most Expensive Housing Market in Canada

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Highlights

- Average home prices in Toronto have narrowed their gap with Vancouver to a significant degree. Indeed, as of December, GTA home prices were only 4% below the GVA, the smallest gap since 1991.
- In the GTA, tighter markets, fewer restrictive government policies and less responsive supply are likely all factors underpinning this narrowing.
- Moving forward, we don't expect any significant further narrowing in favour of the GTA. After several months of strong sales performance relative to listings, the GVA's markets have become even tighter than the GTA. Meanwhile, affordability pressures will become an increasing constraint this year, likely leading to a slowing in price growth in both regions.
- The narrowing gap in home prices between Toronto and Vancouver has been consistent with a recent pickup to multi-year highs in interprovincial migration from Ontario to B.C., There is some risk that this trend could be sustained in 2022.

For years, Vancouver has been thought of as the most expensive place to live by leaps and bounds. Well, don't look now, because as of December, the price of an average home in Toronto was only 4% below that in Vancouver, challenging it for the most expensive jurisdiction in all of Canada (Chart 1). Notably, this is the smallest gap since 1991, and reflects a multi-year trend where home price growth in Toronto has outpaced its Vancouver counterpart.

How have housing markets in the GTA managed this feat? Is it sustainable? And what are the implications? In this note we explore these questions in detail.

How the GTA Played Swift Catch-Up

Government restrictions in the GVA have been a big factor behind the narrowing gap in Vancouver and Toronto home prices in recent years. The imposition of a 15% foreign buying tax in the GVA in August 2016, coinciding with runaway strength in the GTA market, led to a temporary price convergence in both markets during 2016/2017. In 2018, GVA home prices were dampened by additional policy measures meant to combat affordability challenges, including raising land transfer and school rates on highly expensive homes, increasing the foreign buying tax rate, and applying it to more parts of the province. In con-

Chart 1: GTA Home Prices Challenging Vancouver for Most Expensive Jurisdiction in Canada

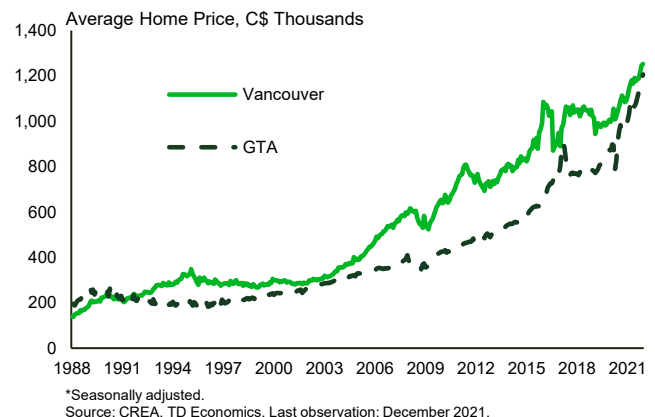
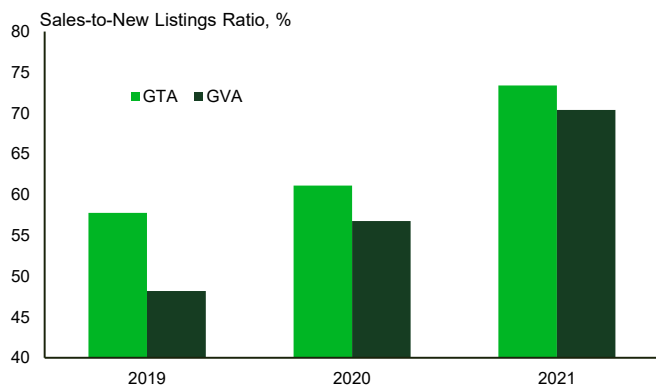
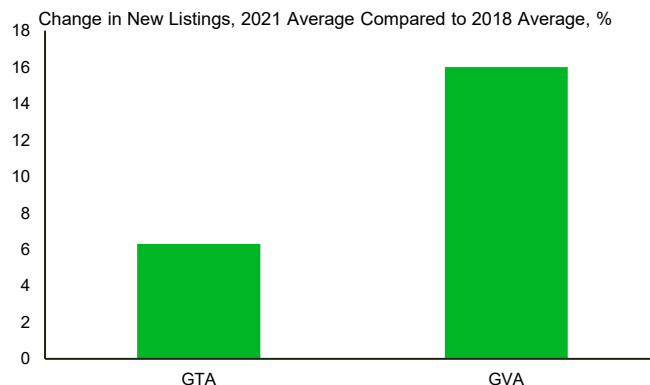


Chart 2: Markets Have Been Looser in the GVA, Thanks to Macroprudential Measures



Source: CREA, TD Economics.

Chart 3: Supply Has Grown More Slowly in the GTA, Helping Narrow the Price Gap



Source: CREA, TD Economics.

trast, there has been a lighter touch on restrictions in the GTA. Accordingly, prices have increased by 40% since the end of 2018 in the GTA, compared to the more pedestrian 13% gain seen in the GVA.

These policy measures have generally targeted the higher-end of the GVA housing market, likely impeding sales growth in higher-valued homes. This, in turn, would have weighed on average home prices, given the shifting composition towards sales of more moderately priced dwellings. Digging into the data shows that sales of homes valued at \$2 million or above in the GVA declined about 10% in 2019, before growing strongly in 2020 and 2021. While data gaps prevent a true comparison between the GTA and GVA, note that sales of homes valued at over \$1 million have increased by 200% since the end of 2018 in the GTA, and by a robust, but lesser 120% in the GVA.

These policies also left housing markets in GVA extremely oversupplied, relative to demand, heading into 2019. Markets have generally remained comparatively loose in the GVA since then (Chart 2), muting home price growth. This gap has recently narrowed however, as GVA sales have outperformed. Both markets have benefitted from robust pandemic demand, but Vancouver has also been boosted by recovery from the restriction-driven slowdown in 2018.

However, supply has also outperformed in the GVA, with new listings advancing 16% versus a 6% increase in the GTA, from 2019 to 2021 (Chart 3). This translates to 1.7 units listed per home sold in Vancouver, versus 1.6 new listings per units sold in Toronto. It remains clear that ro-

bust price growth in Toronto has not stimulated a meaningful increase in supply. In fact, potential sellers who would be more active in "normal" times may be holding back their listings due to a dearth of inventory to relocate to, and intense competition for available properties. In the new home market, the number of completions in Toronto dropped in 2019, and have yet to return to their 2018 level. In the GVA meanwhile, they increased slightly, on average from 2019 to 2021, suggesting some more supply relief has come in Vancouver.

Is This Sustainable?

Shorter-term metrics suggest the potential for further narrowing in the gap, as home prices were up 30% on a 3-month annualized basis in the GTA versus 23% in the GVA.

Looking past the very near-term, both markets will be facing a rising rate environment which should lead to lower sales, once the impact of buyers jumping into the market to get ahead of higher rates subsides. This could cause sales-to-new listings ratios (an important measure of supply-demand balances) to loosen to the lower 60s (from the 70s levels seen during 2021Q4) by the end of the year. Notably, we are anticipating four rate hikes this year.

Our December forecasts also see 9% annual average home price growth in Toronto and 5% in the GVA in 2022, after gains of 18% and 12% in 2021, respectively. However, on a quarterly basis, modest and similar price growth profiles for both jurisdictions are expected (Chart 4) as they run-up against historically tough affordability conditions. This

Chart 4: Historically Narrow Wedge Between GTA and GVA Home Prices Is Expected to Be Maintained This Year

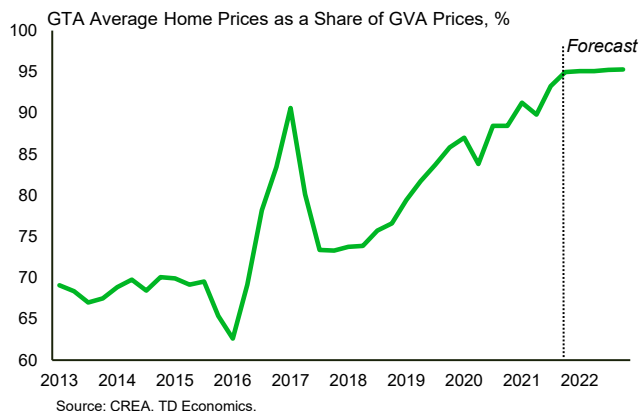
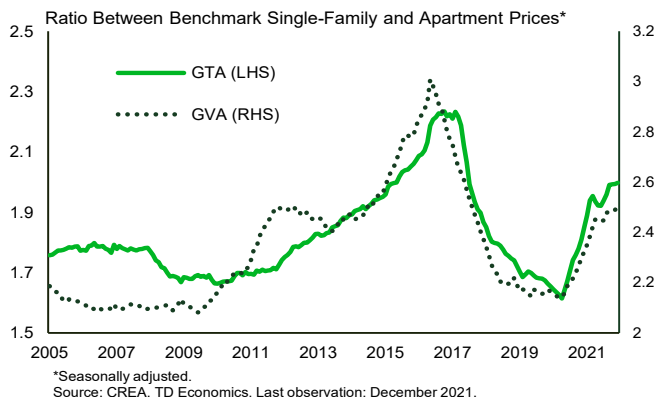


Chart 5: Relatively Inexpensive Apartments Should Support Condo Buying in Both the GTA and GVA This Year



should maintain the gap as-is. Note that relatively strong demand growth has resulted in Vancouver's markets being even tighter than Toronto's as of December. Both markets should see condo sales consume a rising share of activity this year, as they remain affordable compared to other types of housing (Chart 5), population growth picks up, and return-to-office likely gets into fuller gear as once the impact of Omicron subsides. However, we are unlikely to see too much of a difference between Toronto and Vancouver in how this trend evolves.

In the new home market, housing starts in both regions are expected to cool, but remain above long-term averages, in 2022. However, Ontario and B.C. have seen completions lag units under construction, meaning that both markets can expect only somewhat modest relief from new supply. Note that it has historically taken less time to complete a housing unit in Vancouver than Toronto. However, this has

not been enough to stop home prices in Toronto from closing the gap with Vancouver.

Investor demand is an important consideration here. Recently released data from the Bank of Canada points to investors making up about 24% of home purchases in Toronto in 2021Q2, versus 20% in Vancouver (Chart 6). Investors are likely more sensitive to rising interest rates, meaning that the higher rates that we are expecting could put outsized downward pressure on sales and prices in the GTA, thus widening the price gap between the two jurisdictions this year.

Another wildcard that could boost average home prices in Vancouver is the possibility that detached housing may be underbuilt to a somewhat larger degree in the GVA. This is too difficult to know for certain. However, detached completions have been falling in Vancouver. And, combining past preferences for detached housing in Toronto and Vancouver with population growth (and its age-distribution) in both regions, suggests that these units may have been more underbuilt (relative to demographically-driven demand) in Vancouver (Chart 7). This would suggest a stronger underlying thrust for detached housing in the GVA, which could upwardly pressure average home prices in that market.

One Implication: Interprovincial Migration

From the fourth quarter of 2020 onwards, B.C. has seen a massive inflow of people from Ontario. In fact, interprovincial migration from Ontario to B.C. reached its highest level since 1995 in the first quarter of last year. Important factors underpinning this divergence likely include the rise

Chart 6: Investors Account for a Somewhat Larger Share of the Market in Toronto

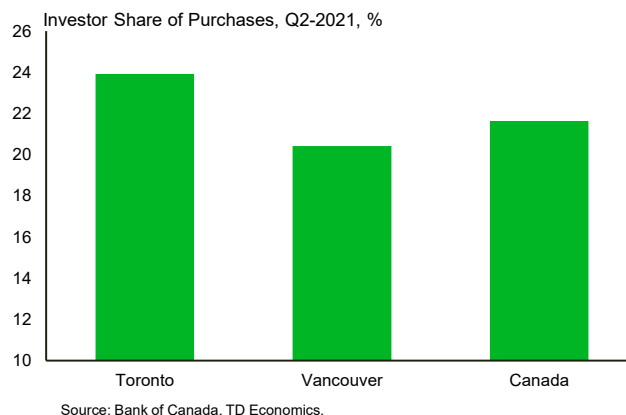
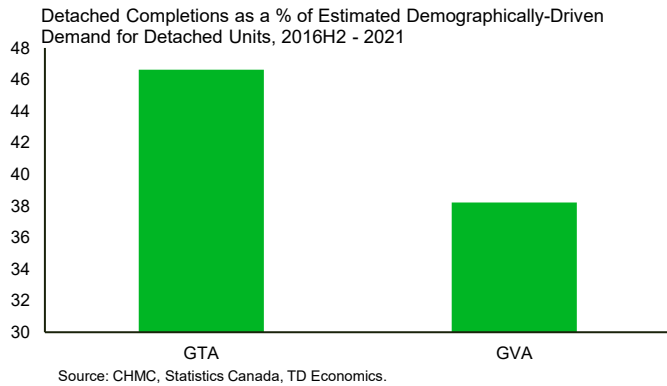


Chart 7: Less than 40% of Estimated Fundamental Demographic Demand for New Detached Housing Units Satisfied by Completions in the GVA



of remote work and the fact that B.C.'s jobs market has run hotter than Ontario's. However, we think that the narrowing of the home price gap between Toronto and Vancouver has blunted an obstacle for people to relocate to B.C. from Ontario. While both markets should see increased immigration levels relative to pandemic lows in coming quarters, provincial population growth will still likely need to rely on interprovincial migration to a larger degree this year. In this respect, B.C. currently has the leg up. And, this could

persist (depending in part, on remote work evolves), given that the narrow price gap between Toronto and Vancouver is expected to remain steady.

Bottom Line

Tighter markets, fewer restrictive government policies and less responsive supply has likely enabled average home prices in Toronto to narrow the gap on Vancouver, challenging it for most expensive jurisdiction in Canada.

Moving forward, we expect the current narrower wedge between the two jurisdictions to persist as prices likely move in sync. Both markets will feel the pinch from higher interest rates. On the margin, Vancouver's market is now tighter than Toronto's, and both jurisdictions may not see too much relief from new supply this year. However, investor activity remains a wildcard which could swing the pendulum in the GVA's favour.

Should this narrow gap persist, it could further fuel interprovincial migration from Ontario to B.C., buttressing the latter's economy this year.

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