Better Dwelling – November 2, 2023

Toronto Real Estate Prices Drop Over $20k As Listings Surge 38% Higher

Better Dwelling || November 2, 2023

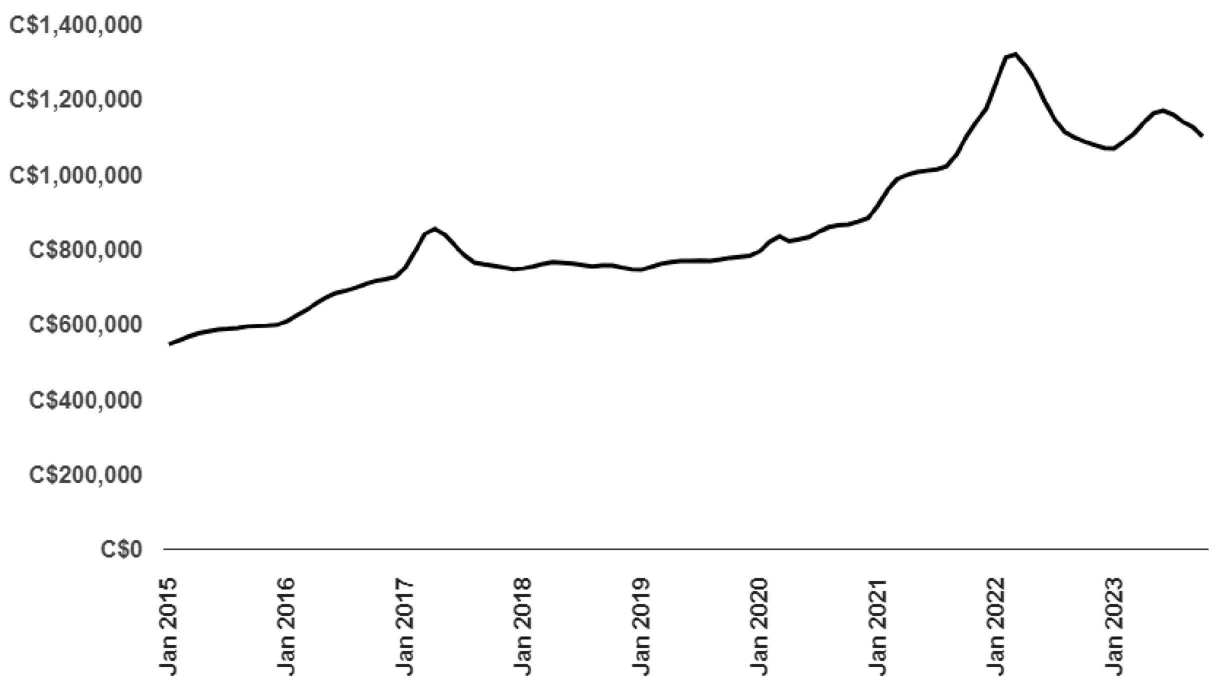
Greater Toronto real estate is back to an ice cold market, after higher rates killed off speculation. Toronto Regional Real Estate Board (TRREB) data shows the composite benchmark (typical) home price made a sharp drop in October. Fewer sales were a major contributor, but the biggest factor is rising inventory. A lot more sellers are suddenly appearing, and the market isn't ready to buy at the current price level.

Greater Toronto Real Estate Prices Fell Over $20k Last Month

Greater Toronto real estate prices fell again, nearly wiping out any gains over the past year. TRREB's benchmark price fell 2.1% (-$23,400) to $1,103,600 in October. In the City of Toronto, the benchmark made an even sharper drop—2.3% (-$24,900) to $1,083,700 over the same period. After four consecutive drops, this last sharp one pushes prices back to the lowest level since January 2023.

Greater Toronto Real Estate Are Off The Peak

The composite benchmark price of a home across Greater Toronto.

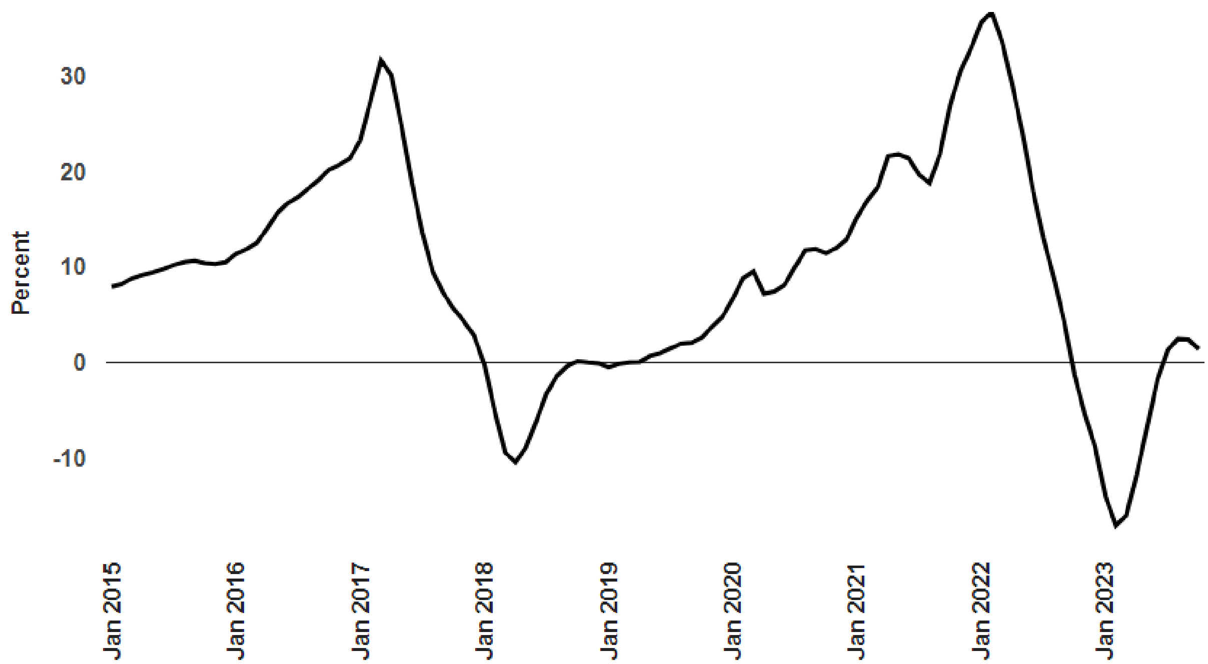


Source: TRREB; Better Dwelling.

Compared to last year, annual growth for both the TRREB (+1.42%) and City of Toronto (+0.3%) was minimal. These composites are likely to start printing negative growth without a dramatic shift to the inventory and sales trends.

Greater Toronto Real Estate Price Growth Is Decelerating

The 12-month percent change for the composite benchmark price of a home across Greater Toronto.



Source: TRREB; Better Dwelling.

Greater Toronto Has Seen Supply Surge, Demand Crater

Greater Toronto residential real estate demand is pudding soft. The annual growth of sales across the board fell 5.8% to 4,646 homes in October. At the same time, new listings have jumped 38% higher to 14,397 listings over the same period. The decline in sales wasn't substantial by any means, but the uptick to inventory was.

The industry's sales to new listings ratio (SNLR) is a preferred method to gauge demand. When the ratio is between 40 and 60 percent, the market is considered balanced and priced right for the current level of demand. If the ratio is higher, demand is tight and likely to drive home prices higher. When the ratio is lower, inventory is considered high, and likely to push home prices lower.

The SNLR fell to just 32% in October, meaning the industry expects prices to soften further. In contrast, it was thought that market demand was soft enough to push prices lower when the ratio was 47% last year. Now that the ratio is well into a "buyers' market," the downward pressure on prices is stronger.

Falling demand was largely expected as investors began to dominate the market. Since they were buying with leverage on the basis of appreciation, higher rates have suddenly killed investor appeal. Now to restore sales, either prices need to fall back to a level that end users can afford, or investors need to see the return of cheap leverage.