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The Toronto condo market is imploding during a housing crisis. Here's how we got into this mess

Many people have little choice but to stay out of the housing market entirely as the cost of a home far exceeds the carrying capacity of most families. Instead, they rely on equally unaffordable rentals, of which many are inadequately proportioned condos owned by investors.

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Urbanation reported that just 1,688 condos sold between April and June in the Greater Toronto and Hamilton Area (GTHA), a 66 per cent decline from the same period in 2023, marking the lowest sales rate in a generation. Toronto Star file photo.

There are two ways of interpreting the continuing decline of new condo sales — a trend that somehow achieved uncharted lows, according to information on second-quarter activity released earlier this week by Urbanation.

The firm, which tracks the Greater Toronto and Hamilton Area (GTHA) housing market, reported that just 1,688 condos sold between April and June, a 66 per cent decline from the same period in 2023, marking the lowest sales rate in a generation (except for the first few months of the pandemic) — and all this despite overwhelming evidence of a housing affordability crisis.

One interpretation, advanced by many economists, is that the GTHA condo market hasn't yet responded to the Bank of Canada's 25 basis point rate cut in June and its subsequent signalling that more relief is on the way. As a Leger survey conducted earlier this spring for Royal LePage found, 41 per cent of respondents needed to see a cut of at least 50 or even more than 100 basis points in order to make the math on a purchase work.

Indeed, you can think of that June cut as the moment when your alarm clock first goes off. You groggily hit snooze, but you're now a wee bit awake. The second and perhaps third alarm will get buyers out of bed and signing presale agreements, or so goes the theory of orthodox market economics.

The second interpretation veers off in a different direction and takes a run at the apparently inviolable laws of supply and demand, which work seamlessly when one is selling lawn mowers or summer dresses but not so well when it comes to housing.

A small clarification here: the market signals travelling between builder and buyer were far clearer in the days when subdivisions of single-family homes dominated, primarily because the buyers were also end-users.

Yet due to decades of financialization, the condo sector no longer works that way. The buyers sending the market signals to developers are often investors; in the presale market, they're outright speculators. What has been most in demand by investors were one- or one-plus bedroom apartments, and so that's what got built. Whether GTHA residents looking for housing mainly want to live in one or one-plus bedroom apartments is an entirely different question.

It’s as if a shoe wholesaler had said to one of its suppliers, “Just send ladies’ small sizes. Trust me. I’m certain that’s what my retailers need.” Thing is, the retailers’ own customers don’t just want ladies small, nor can they afford to pay premium prices, and therein lies the problem.

The other riddle in these statistics has to do with what’s different about the GTHA, whose housing market isn’t behaving like those in other large Canadian cities. Key macroeconomic factors — labour shortages, interest rates, inflation, supply-chain issues, building material costs — apply across the country (and beyond it), not just in one region.

So, what accounts for the anchor weighing down the GTHA sector? Land use policies are an easy target, but Premier Doug Ford’s government, as well as more proactive municipalities, have spent the past few years removing regulatory and administrative roadblocks to development in an effort to stoke the supply of new housing.

One other structural explanation ultimately involves prices: the median cost of GTHA condos and homes today — ranging from $640,000 to $1.3 million, according to the Toronto Regional Real Estate Board (TRREB) — far exceeds the carrying capacity of most families. A gross income of almost $140,000 is needed today to support a half million-dollar mortgage, whereas the median Toronto household income in 2021 was just $84,000.
The timeline for saving enough for a stress-tested down-payment is now measured in decades for the GTA.

The takeaway isn’t difficult to grasp: many people have little choice but to stay out of the market entirely and instead rely on equally unaffordable rentals, many of which are inadequately proportioned condos owned by investors.

The TRREB’s own second quarter evaluation tried to strike an optimistic tone, noting that prices on all the main categories of dwellings had fallen by a couple of percentage points in the past few months. What Urbanation’s latest sales data all but shouts is that the much-vaunted equilibrium between supply and demand is still nowhere to be seen, housing crisis be damned.