I wanted to share something that I found very interesting in my weekly sales meeting with Chris Kapches the president and CEO of Chestnut Park.

A professor at the Ivy Business School studied the effect that interest rates had on the cost of housing between the period of February 2019 and early 2021. What he found was that the decline in interest rates effectively boosted the amount that consumers could afford to pay for housing by approximately 22 %. Interestingly enough, 22% also happens to represent the increase in the average sale price of housing in the (416) region of Toronto. So, the thought is that this incredible increase in average sale price would have happened notwithstanding the pandemic. That 22 % boost has effectively capped what consumers can pay for homes. Average household income has not increased. Even mortgages with a 0% interest rate still require the principal to be repaid. So, there is no room for any further growth in average sale prices.

To add fuel to the fire, the growth of Ontario's population has been dramatic in the last 5 years adding to the demand for housing. Canada, Ontario and Toronto in particular, are preferred destinations for global immigration with our stable government, secure banking systems, low crime rates and robust healthcare systems. Ontario added an additional 1,000,000 people in a 5-year period; many foreign workers, students etc. which was out of proportion to the 600,000 or so that had come to Ontario in the previous 5 years. This unexpected leap in Ontario's population and its effect on the housing market was not addressed by policy makers. As a result, a misalliance occurred between supply and demand of housing as capacity did not keep up with this influx of people.

Will we see a cooling down effect on the housing market in Toronto? We are already seeing some signs with more inventory coming on the market. The concept of "Buyers' fatigue' is becoming more evident as we are seeing a decrease in the use of "offer dates". An "offer date" is a strategy used by sellers and their agents to increase urgency and compel buyers to offer irrational amounts of money for homes in a frenzied attempt to win the bid. June 1st will also see the introduction of more stringent measures needed to qualify for an uninsured mortgage by Canadian lending institutions. The current stress test is based on a 4.97% interest rate, but it will jump to 5.25% effectively lessening the consumers' borrowing capacity. All these factors could lead to a welcome natural cooling of the market as opposed to policy makers implementing legislation to artificially cool it down.

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