

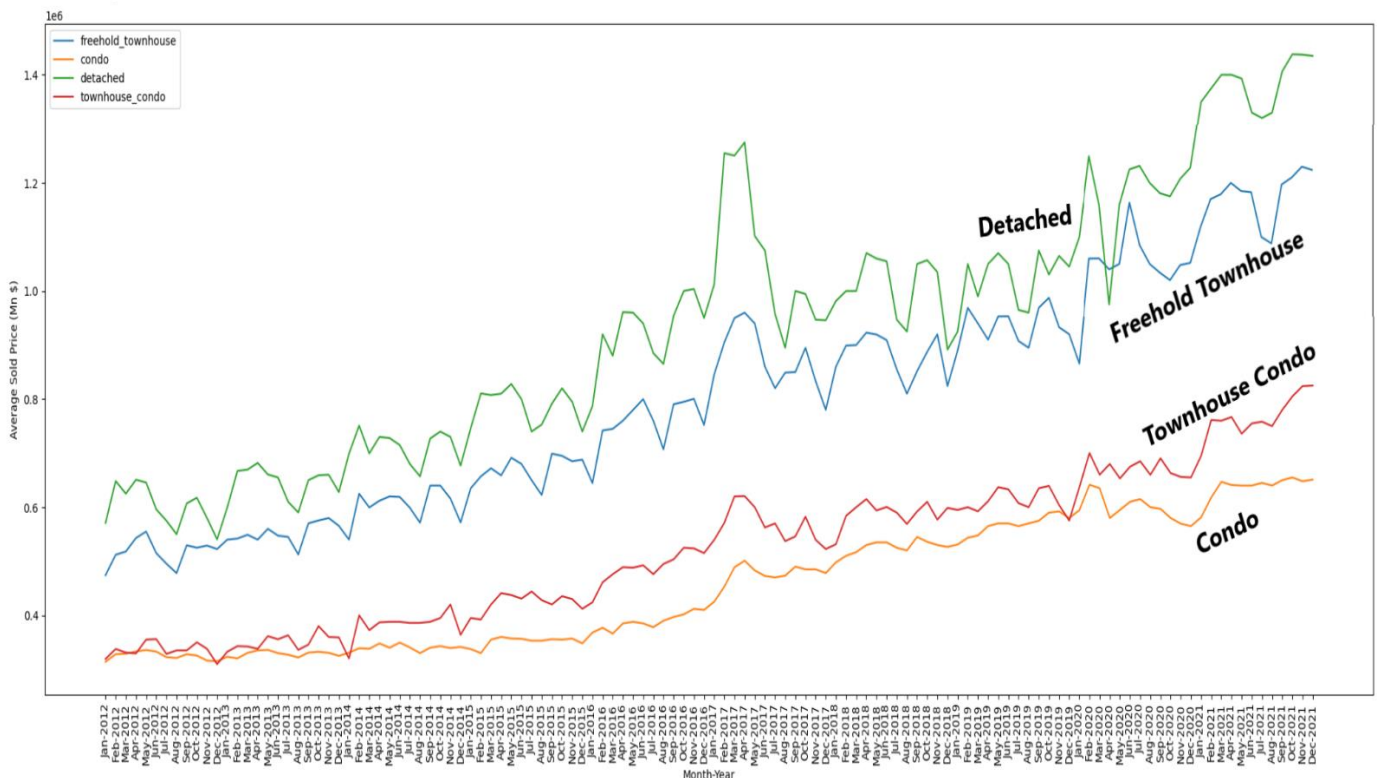
# Why are houses so expensive in Toronto – A Case Study

The Toronto housing market has been overheating for quite sometime, and it's no secret. In this report, we are going to explore the historical data with respect to the Toronto Real Estate and dive into the reasons that might be causing this increase.

Toronto real estate is massively overvalued, but is there a crash in forecast? When do we start bailouts? We will try to answer all these questions with the help of data publicly available at the disposal of a private citizen of Canada.

Based on the data (1) collecting by Toronto listings over the course of the last 10 years, the graph below shows the average price at which houses were sold. These insights from previous sales pattern in the Toronto real estate market will give us a view on what will happen in 2022 and beyond. As shown in Figure [1], there is a difference in the price increase trend between Detached and Condo houses. And that's because the two segments of the market cater to different audience.

**Figure 1: Average Sold Prices in Toronto 2012-'21**



## Is Toronto market a Housing bubble about to burst?

Homes become overvalued during a housing bubble. This can happen due to inorganic growth like speculators/investors flooding the market buying up homes to take advantage of rapid price growth, with the intention of making a profit on

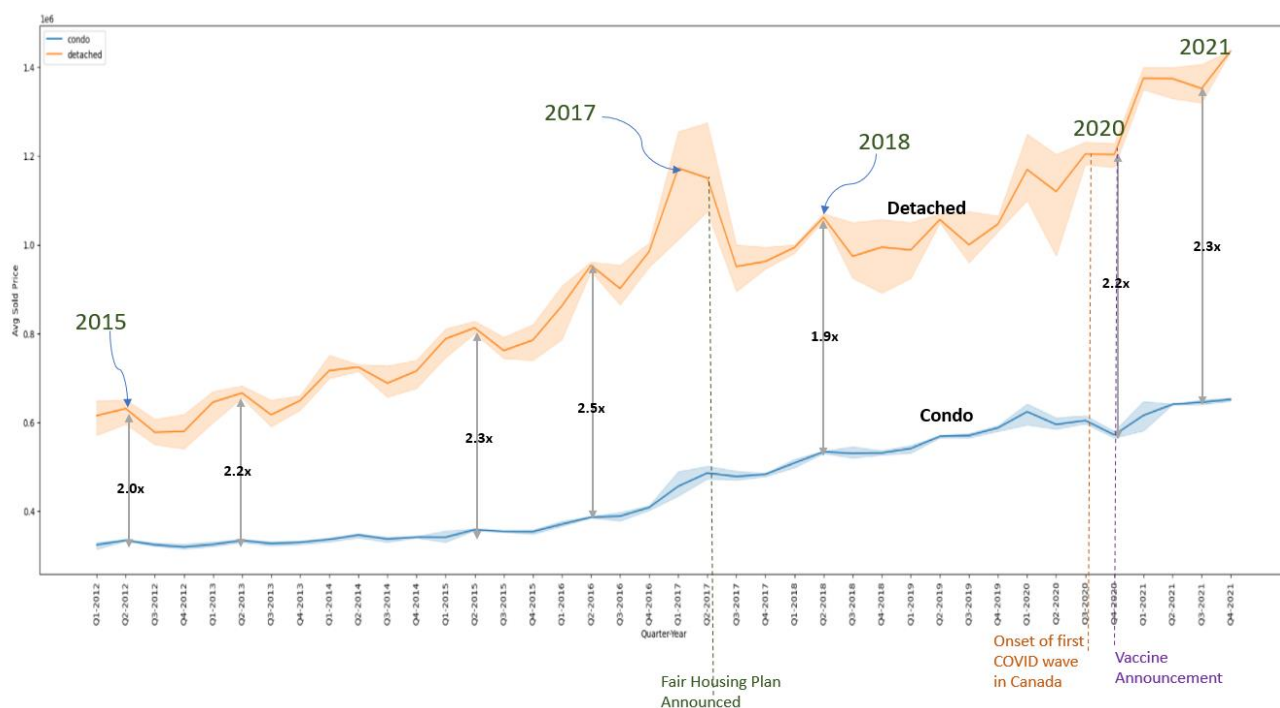
resale. Bubble is a temporary event, and prices eventually return to normal.

So the question here is, do we have too many speculative investors who'd topple should the mortgage rates increase? Also, is the appreciation in the housing market fueled by supply and local demand or are there other external factors involved in driving the Toronto home prices up?

Let's look at the graph below that shows the median home price history comparison between Condo and detached market. The Detached price trend in 2017 does resemble a housing bubble but the dip in price was caused by the Fair Housing Plan implemented around the same time. So, in this case, the Fair Housing Plan which was a policy put in place by the Ontario Government to cool the housing market in April 2017. That impacted the prices in Toronto immediately after, but it started regressing again thereafter.

Both Detached as well as the Condo market are directly impacted by the supply vs demand conundrum. The regression in the price was then slowed down by the onset of the first COVID wave in Canada. It again started regressing towards an upward trend soon after the Vaccine Announcement was made in the last quarter of 2020

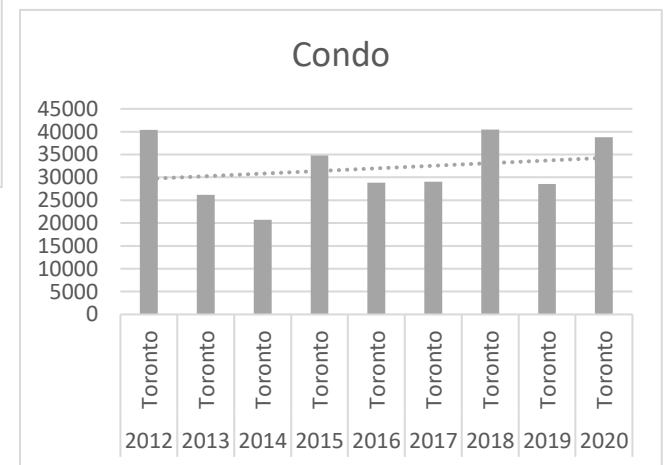
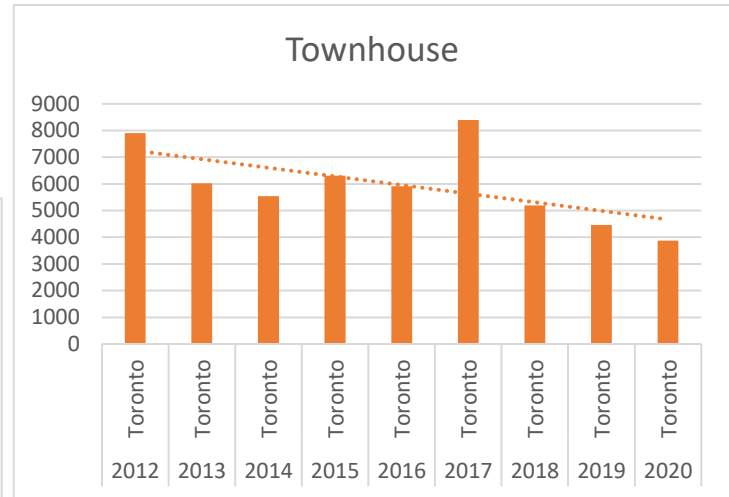
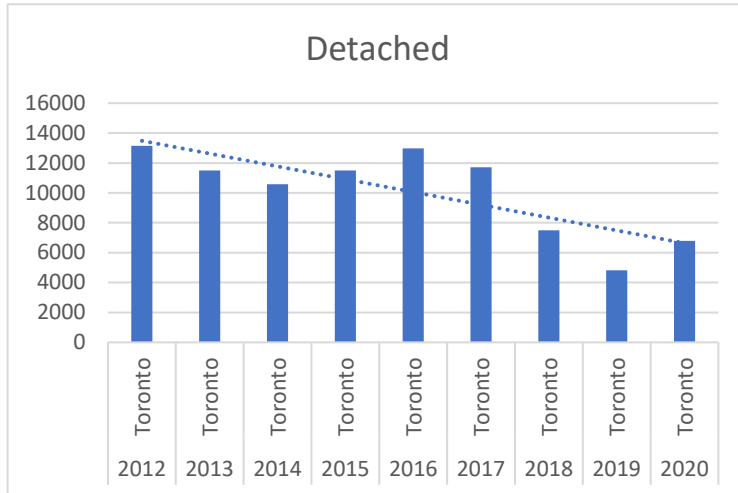
**Figure 2: Median Price Growth Condo Vs Detach**



# Causation of Housing Price Increase in Toronto

## 1. Supply – New Condo/Detached Inventory

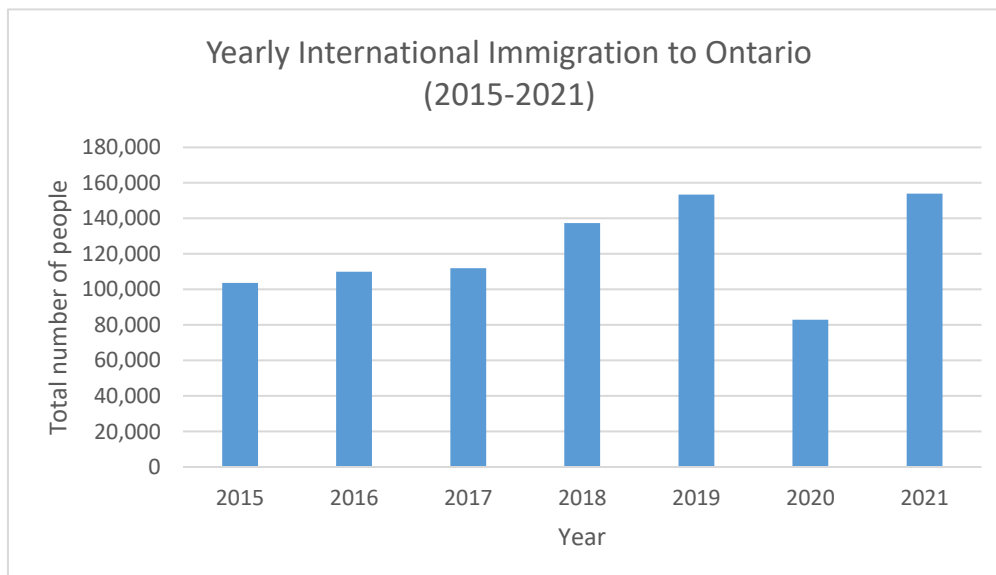
The inventory of newly constructed houses has been reducing. The below graphs show the number of detached vs townhouses vs condos that were available for sale over the course of period 2012-2020. (2)



The inventory of detached segment has considerably decreased to only 7000 units available in the year of 2020. While condo market shows considerable inventory in 2020, it also sees its ups and downs. These graphs explain the stark increase in prices in the detached segment as opposed to the condo segment.

## 2. Demand: Immigration

To show the contrasting demand, we are only taking a subset of the total migration that happens in Toronto.



Only considering the number of people who migrate internationally to Ontario(4)  
This dataset contains the Permanent Residents admitted internationally to Ontario over the period of 2015-2021. According to a report done by city of Toronto based on Census 2016 (3) ~47% of immigrants in Ontario move to Toronto. If we consider this data to be a representation of immigrants

moving to Toronto, we will receive nearly 70000 persons every year since 2018 coming into Canada, except in 2020.

In October 2021, the Federal Government announced that they plan to bring in more than 1.2 million immigrants over the next three years for the economic recovery post-COVID. Comparing the total inventory available every year to total immigration every year, we would see the stark shortage in supply as compared to demand, which will continue increasing. The below tables calculate the inventory supply of condos, townhouses and detached year by year. We then calculated the total supply based on the person per household multiple

	CONDOS	TOWNHOUSES	DETACHED
2020	38773	3879	6784
2019	28530	4462	4828
2018	40453	5194	7499
	x	x	x
Person per household	2.0	3.06	2.72
Supply	215,512	41,417	51,981

**Total Supply**

**308,910**

	2017	2018	2019	2020
Toronto (CMA), Ontario	6,217,328	6,337,780	6,462,898	6,556,600
Population Growth		120,452	125,118	93,702

**Total Population Growth**

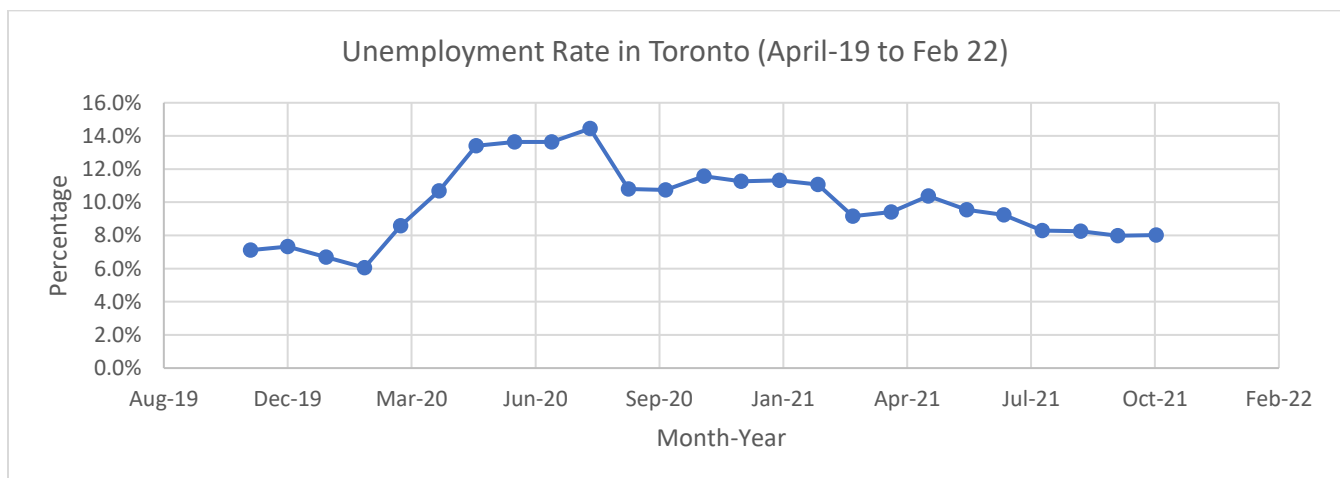
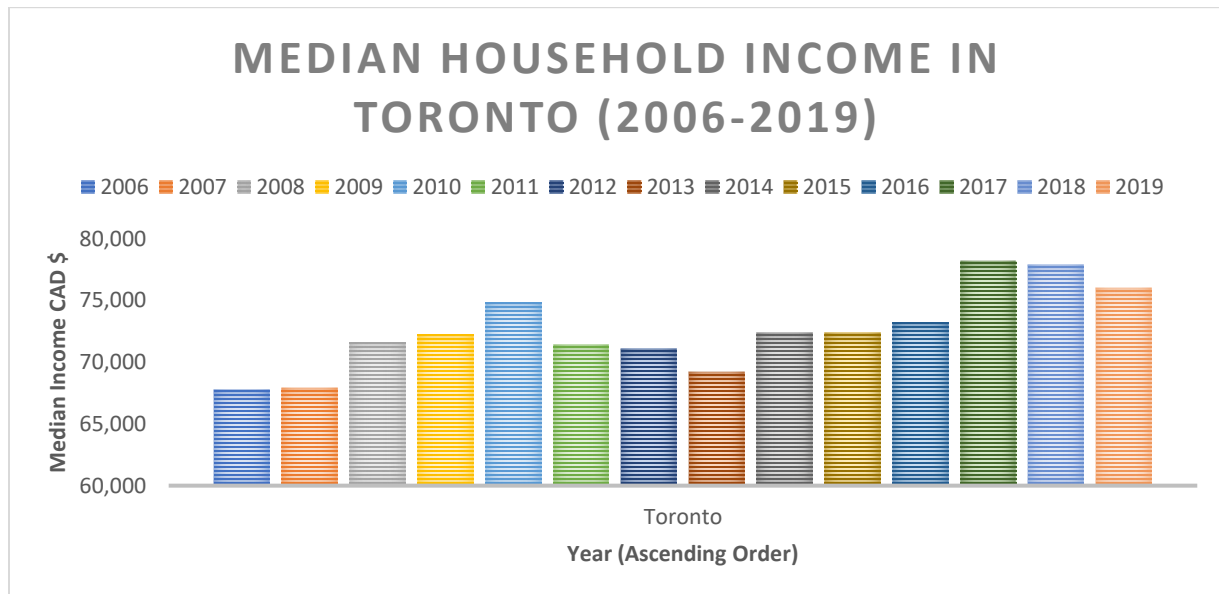
**339,272**

**Housing Deficit = 308,910 - 339,272 = 30,362 people**

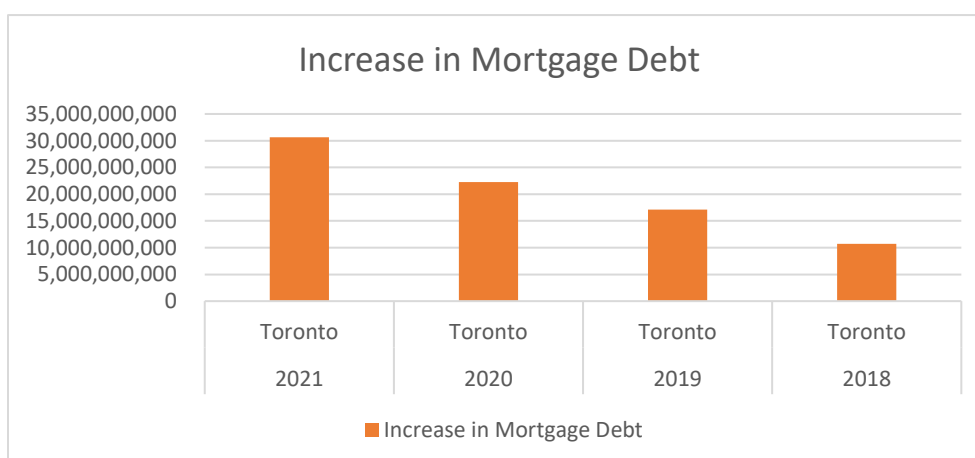
The above inventory is that of construction started in Toronto, because of lack of construction completion data we are going under the assumption that construction completed in a year. With this assumption, we still have a housing deficit for 30,362 people. If the construction is not completed in a year, the deficit will only further increase, thus putting much more pressure on the demand of housing. This is one of the biggest reasons why prices in Toronto are driving up

### 3. Affordability: Interest Rates, Unemployment, and Income

In order to recover from the economic loss made by the Pandemic in the first quarter of 2021, the Bank of Canada decided to slash their rate of interest to 0.25%. While the median household income in Toronto increased (6) and the unemployment rate (7) also took a dip after increasing for a bit in the third quarter of 2020.



But if the rate of interest plummeted to an all time low, the mortgages became much cheaper with income levels remaining the same if not higher. Hence, the affordability of an average household in Toronto increased. This can be proven by the data provided by CMHC on the Total Outstanding Mortgage Debts from 2017 to 2021.



As it can be seen, the mortgage debt has increased by quite a lot between 2020 and 2021 compared to the previous years, hence proving that more people could afford a mortgage.

## **Policy Proposal for the Government**

Southern Ontario is home to 94% people as compared to just 6% in the North. There are many factors such as moderate climate and well-used transportation, proximity to populated areas of the United States. But with climate change in effect the climate has been leaning towards moderate in the North as well, the Government could start approving more development projects in the North. They can invest in business ideas that are willing to employ more people in the Northern regions.

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