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TREB's Months of Inventory Indicator/Affordability Point to Continued Price Growth in 2012

TORONTO, January 20, 2012 – Starting with its November 2011 Market Watch publication, the Toronto Real Estate Board (TREB) has been publishing a new Months of Inventory (MOI) indicator. MOI shows how long, on average*, it would take to sell all actively listed homes assuming the level of sales remained the same and no additional homes were listed.

When the MOI trends downward, the market is tightening with fewer listings from which buyers can choose. Generally speaking, tightening market conditions translate into more competition between buyers and more upward pressure on the average selling price. When the MOI trends upward, the opposite would be true: competition between buyers will ease and the rate of price growth will likely moderate.

The average MOI was 2.3 months over the last two years. In the years leading up to the recession (2000 through 2007) the average MOI was 3.0 months. In response to tighter market conditions, the average annual rate of price growth was stronger in 2010 and 2011 in comparison to much of the pre-recession period.

"The low months of inventory over the past two years resulted from very strong sales relative to the number of homes listed. In 2011 in particular, there was a shortage of listings in the GTA. We continue to experience tight market conditions and considerable upward pressure on the average selling price," said TREB President Richard Silver.

"The strong price growth we have seen over the last two years has largely been mitigated by low borrowing costs. TREB's affordability indicator shows that a household earning the average income in the GTA can comfortably carry a mortgage on the average priced home, based on current lending standards," continued Silver. Based on the current market tightness and positive affordability picture, TREB expects the average selling price to continue growing in 2012.

"Barring a recession in Canada, the average selling price is expected to grow by approximately four per cent in 2012 to $485,000 dollars. This price will remain affordable based on current lending standards. At the same time, the lower rate of price growth in comparison to 2011 points to an easing of sellers' market conditions in the second half of this year," said Jason Mercer, TREB's Senior Manager of Market Analysis.

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*The MOI is calculated by dividing the 12-month moving average of active listings by the 12-month moving average of sales. This smooths out recurring seasonal volatility.

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