



July 2021 Metro level deep-dive

Quick links:

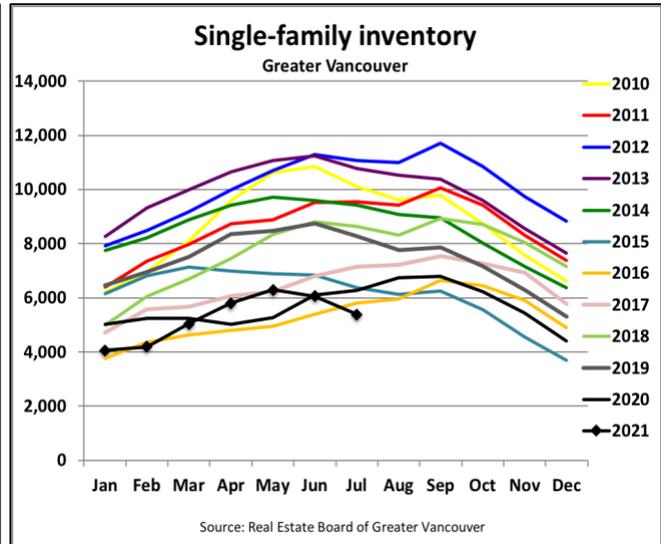
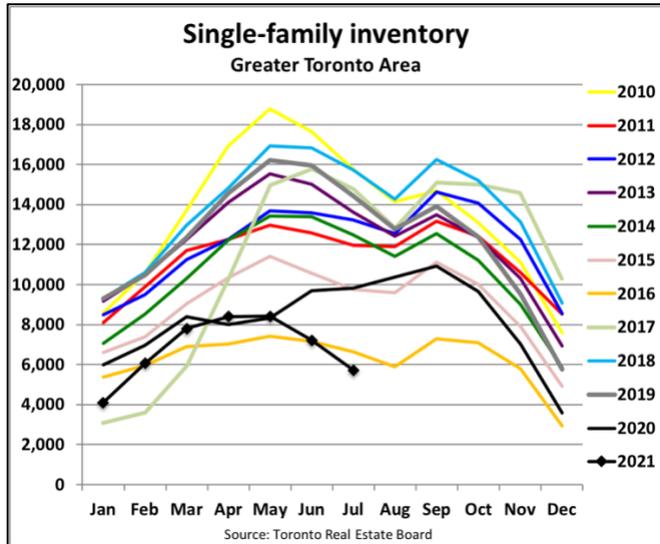
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- [3\) Vancouver home sales slow but new listings hit 10-yr lows](#)
- [4\) Strong sales activity continues in Calgary and Edmonton, price growth accelerates](#)
- [5\) Quebec home sales tumble 32% y/y, active listings hit new lows](#)

Key takeaways:

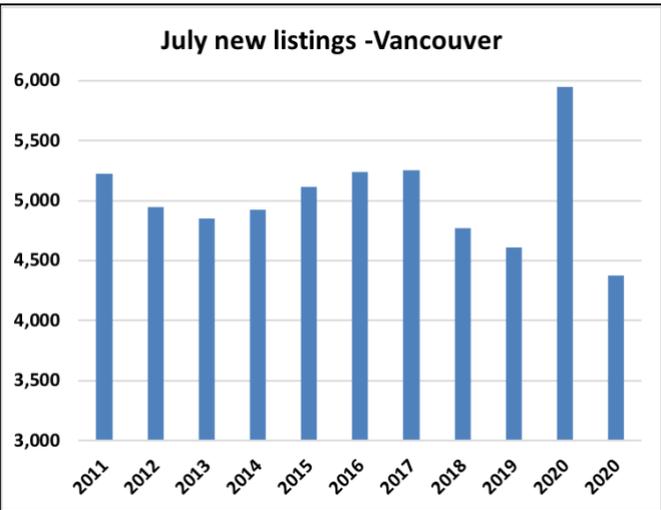
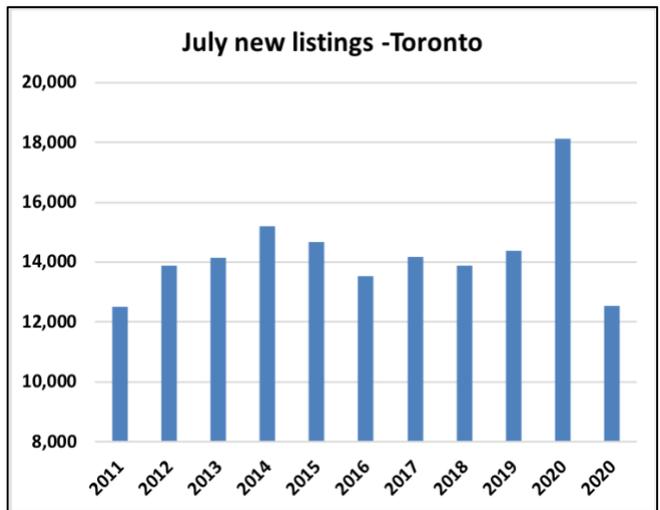
- There was a dramatic decline in new listings in Vancouver and Toronto in July, with both coming in at decade lows.
 - In contrast, Alberta metros have seen 5 straight months of record new listings
- Home sales continue to moderate from the exceptional peak in Q1 but this is still a very strong seller's market in all major metros.
- Early indicators of an unwind of the "flight to the suburbs" dynamic as single-family sales soften while condo sales pick up in Toronto and Vancouver.
- Condo rental market is showing signs of a dramatic rebound off the lows. It's not yet clear how much of this is being driven by resurgent NEW demand from foreign students (population estimates in July looked solid) vs how much is lateral movement from existing tenants to lock in lower rents now that it's clear that a bottom is in.

1) Resale inventory hits new lows even as construction boom continues

Perhaps the most striking data point from the preliminary July resale housing data is the sharp decline in single-family inventory in major markets across the country. Consider Toronto and Vancouver where standing inventory hit multi decade lows for the month:



Chalk this up in part to a dearth of new listings coming to market. After hitting record levels just last year, new listings this July fell roughly a third to hit 10-year lows in both markets.



As to what's driving this low level of new listings, realtor Steve Saretsky had this to say:

I strongly believe new listings are being held back from the market because this summer marks an unusual time. The economy is finally open, and people are elated to get out of the house. Local travel is booming, try and book a camp site or an AirBnb, completely sold out. Not only are the sellers gone, but so are the Realtors. The last 12 months has been the biggest bull market in Canadian Real Estate history, literally. Realtors have been well fed and are now enjoying the fruits of their labour at the summer cottage, while encouraging their sellers to do the same.

Suffice to say there will be a strong bounce back in new listings this fall. However, I'd like to add one more crucial piece rarely discussed in the media. There is a growing trend of real estate hoarding. Canada is in the longest expansion of home prices without a correction ever. After Q2 2021, prices have logged 97 quarters

without a technical correction (a drop of 10% or more). When you get a 24 year bull market it is inevitable that people think it will go on forever. So, naturally, people want more real estate.

Remember when people used to sell their condo in order to buy the house? Today we are seeing a growing trend of keeping the condo while still buying the house. Yes, in Canadian Real Estate you can have your cake and eat it too. There is a massive trend where people opt to keep the condo as a rental, refinance it, and use the new found equity as a down payment on the house.

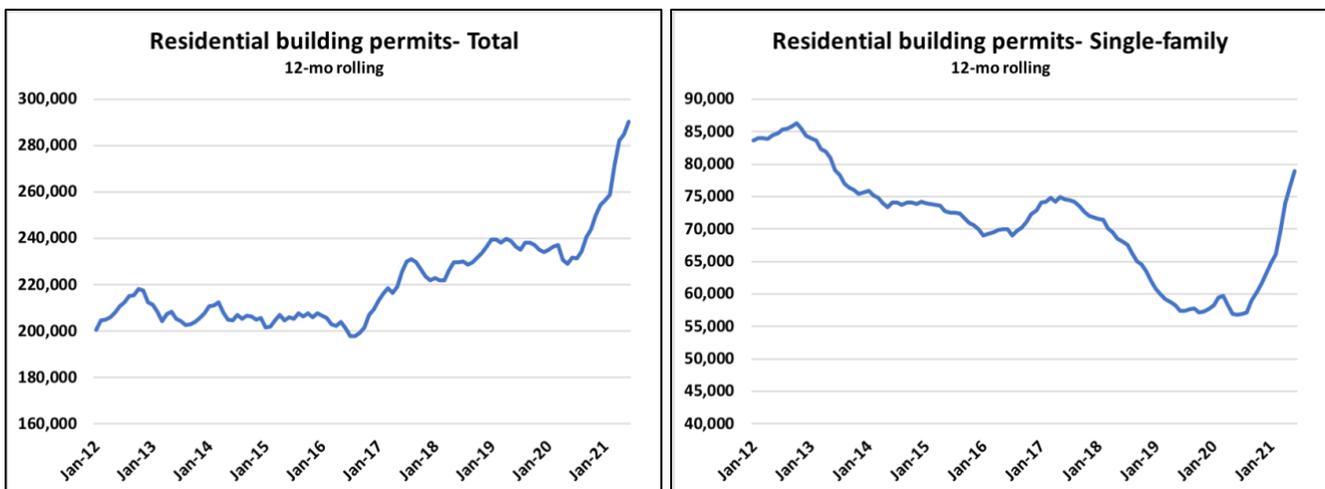
“Mortgage Jake” suggests that it’s as high as 9/10 of his clients inquire about keeping their existing property:



With carrying costs so low (discounted variable mortgage rates are still under 1.2%) and with house prices nationally up 24% y/y in June, it’s easy to understand why this is such a compelling option for the average Canadian.

This likely doesn’t change until we see a rise in mortgage rates or substantially more new supply to temper house price appreciation and take some of the speculative fever out of the market.

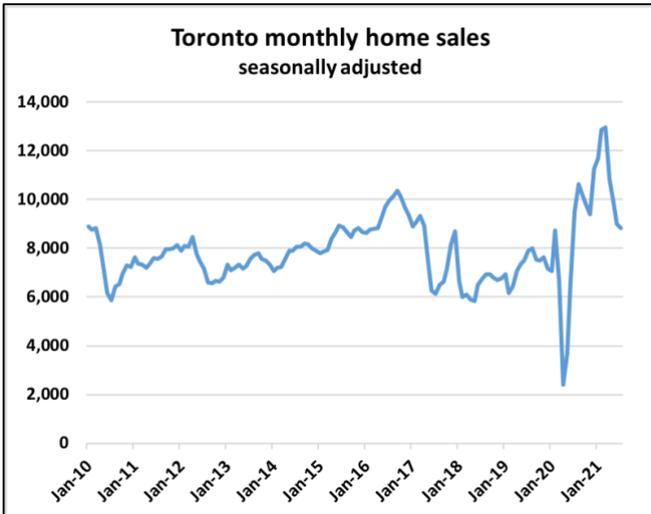
On the latter point, residential building permits continue to surge and were up another 8.8% m/m in unit terms in June. That brought the 12-month rolling total to 290k, by far the most on record. Even the single-family segment has seen permits hit 7-year highs.



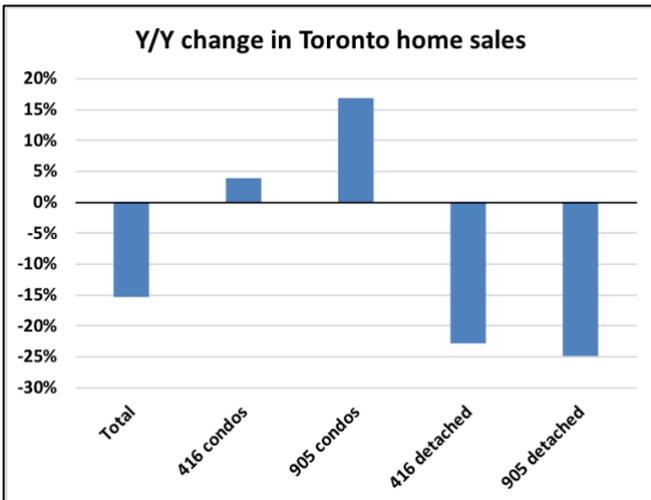
That should translate into very strong housing starts in coming months. That may bring some reprieve to an undersupplied market and should hopefully take some steam out of resale prices, but there’s it’s a long ways from here to anything resembling a normal, balanced market.

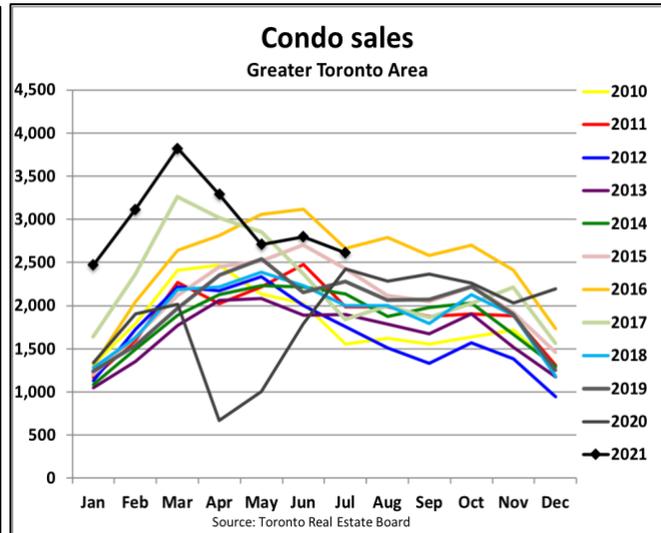
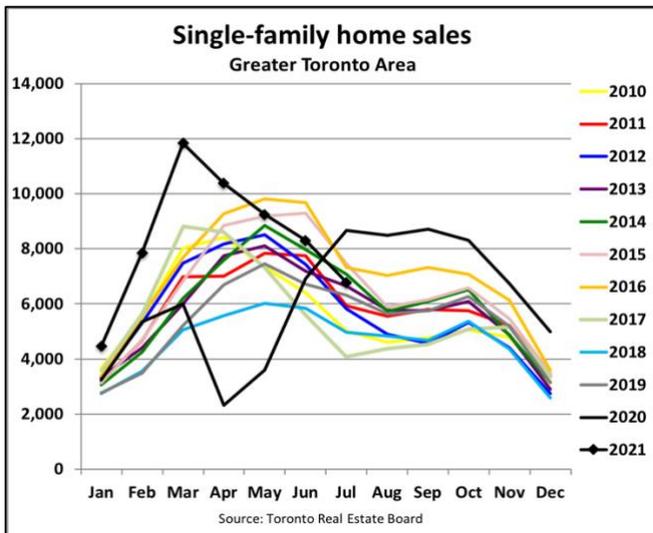
2) Toronto home sales fall for 4th consecutive month but rental market catches fire

Seasonally adjusted home sales in Toronto fell another 2.0% m/m in July, the 4th consecutive decline. Sales have now fallen a cumulative 32% from the March highs but remain above levels seen just prior to the onset of the pandemic:

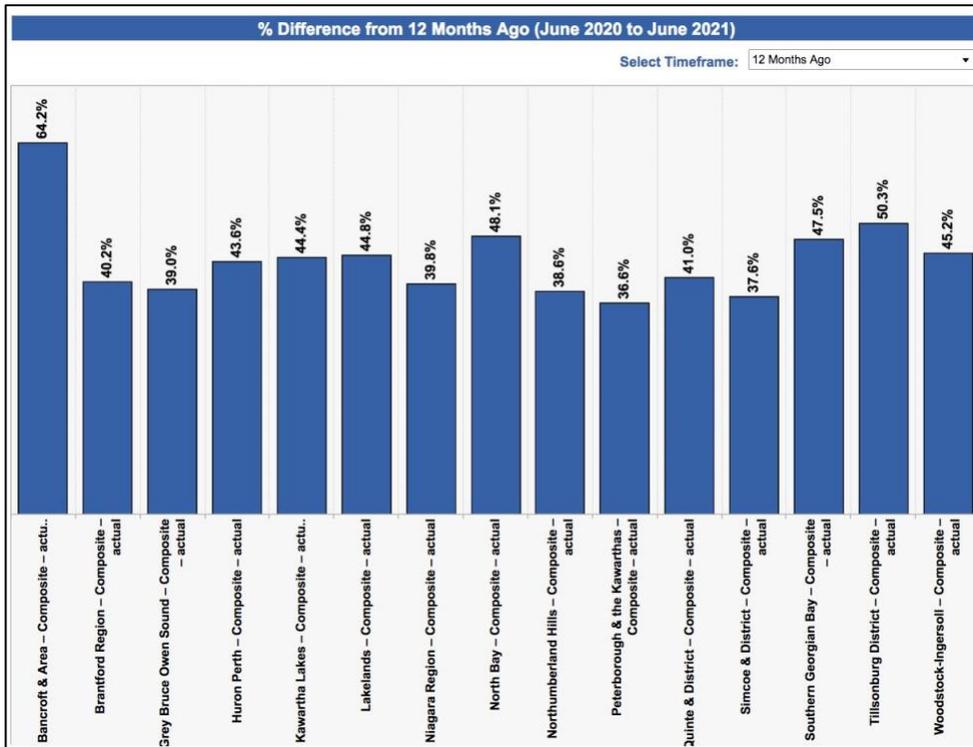


There are mounting signs that the “flight to the suburbs” is beginning to unwind. Home sales were down 15% y/y overall, but that masks a sharp decline in detached sales, notably in the suburbs (905 area code on the chart below) while total condo sales were up nearly 10% y/y:

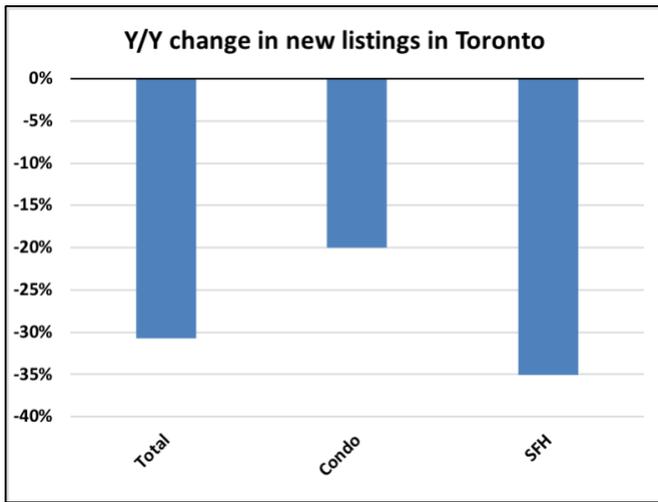




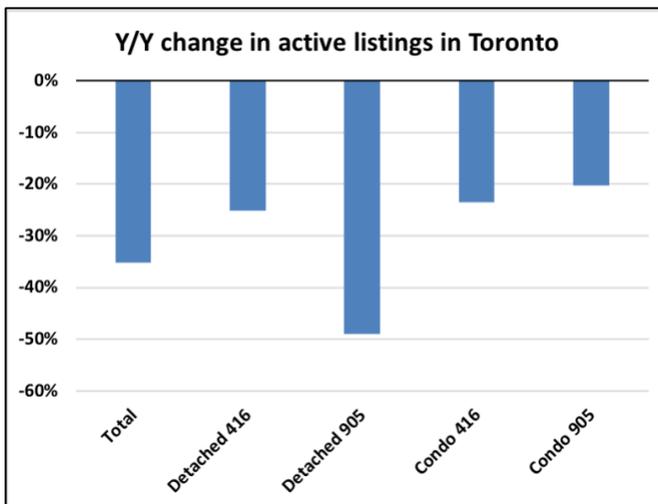
To the extent that the Greater Toronto Area is a proxy for the rest of the province, this dynamic could have serious implications for some of the smaller regional markets that benefitted from rising demand for suburban dwellings and saw prices surge by up to 60% y/y:



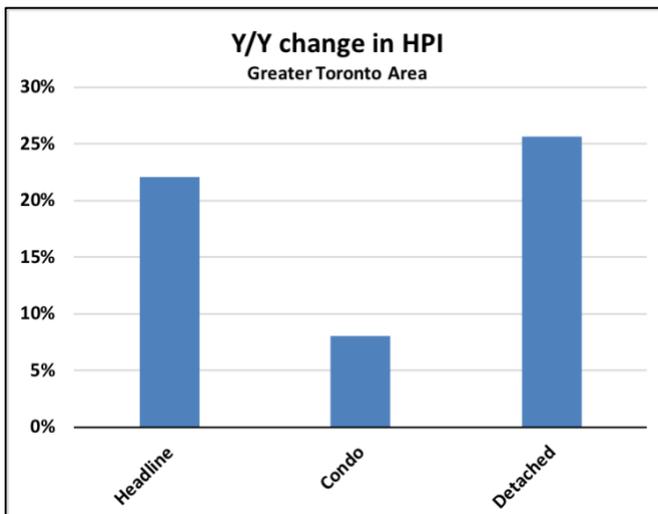
New listings were down 31% y/y off record levels in July 2020:



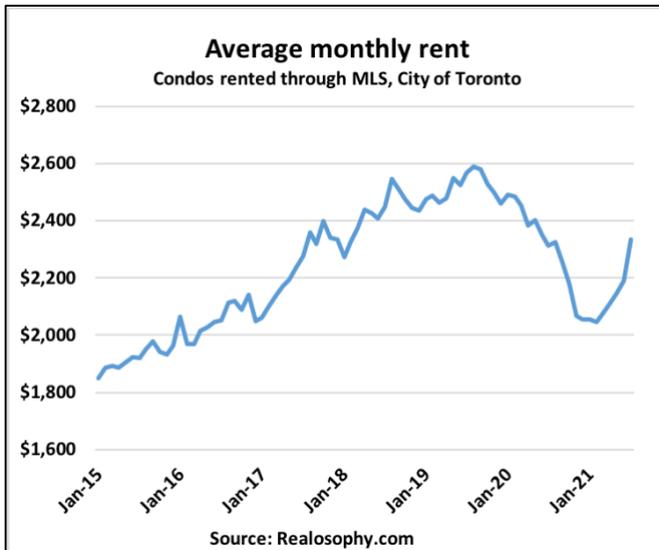
Active listings were down 35% y/y including a near 50% drop in detached listings in the suburbs:



The MLS House Price Index was up 18.1% y/y across all property types including a 25.1% increase in the detached segment:



On the rental side, average condo rents were up a whopping 7% m/m in July and are now positive on a y/y basis (but still down 10% from mid-2019 highs).



Based on anecdotes from Toronto realtors, it appears that the return of foreign students ahead of the Fall semester has caused a dramatic tightening in the market in the past month. Consider some of the anecdotes below:

Nasma Ali @nasmadotali

Listed a condo for sale, slightly higher than market value, barely any showings. Listed for lease, bookings blowing up my inbox day one, agents calling me, offering sight unseen above asking year's rent up front! Mainly students. Chinese from Vancouver.

8:46 PM · Aug 4, 2021 · Twitter for iPhone

7 Retweets 3 Quote Tweets 60 Likes

Nasma Ali @nasmadotali

I cannot describe to you the frenzy happening right now for tenants to get a downtown condo. I am receiving what feels like an offer per hour on our 2 bed condo downtown. Over asking sight unseen. And being bombarded by calls and emails every minute.

12:50 PM · Aug 5, 2021 · Twitter for iPhone

4 Retweets 3 Quote Tweets 29 Likes

Nasma Ali @nasmadotali · Aug 6

Rental market stories continued. Listed a dt condo for lease at \$3250 market rent, received maybe about 10 offers in one day, most are over asking. Leased for \$3650, sight unseen (!) One year's rent upfront.

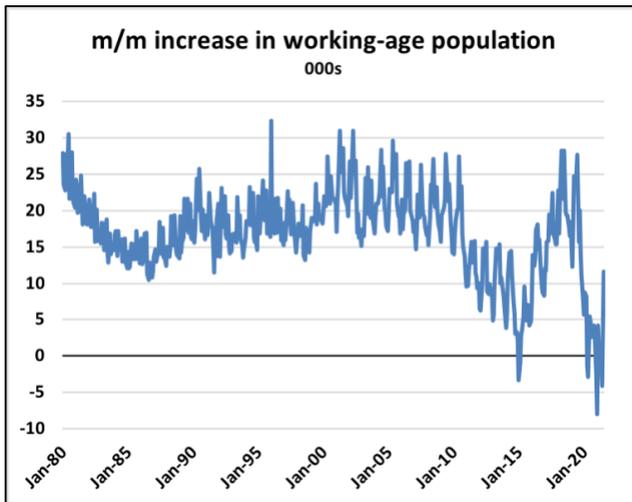
26 17 69

Nasma Ali @nasmadotali · Aug 6

Received an email or call per every half hour for this listing. Agents are very desperate right now trying to get a place for their clients. Condos leased day 1 before they can even see it. So they are offering sight unseen.

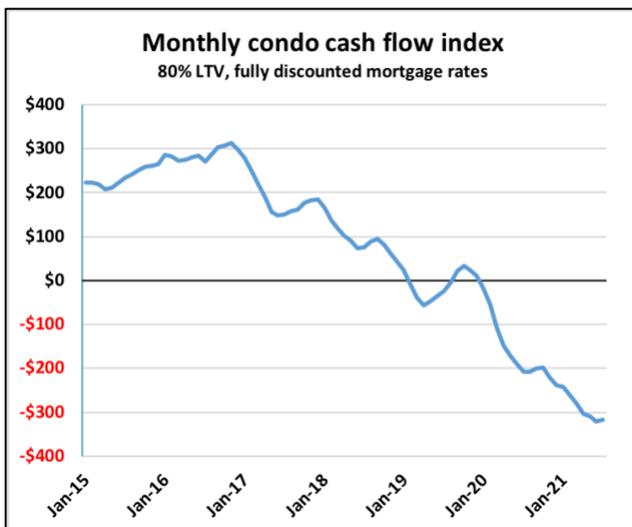
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Related, the population modelling in the Labour Force Survey shows a notable increase in the working-age cohort in July. At 11k m/m, it's not a particularly strong monthly increase in historical context, but it was by far the largest since the pandemic began.



These population gains plus existing renters looking to move laterally to lock in lower rates would seem to account for most of the increase in rental activity last month.

Even with recovering rents, the cash flow index is still sharply negative at \$300/month for the typical condo financed at 80% LTV.

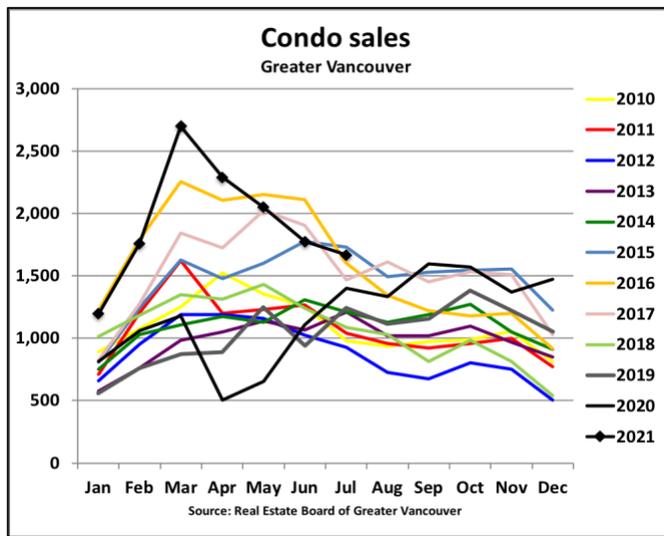
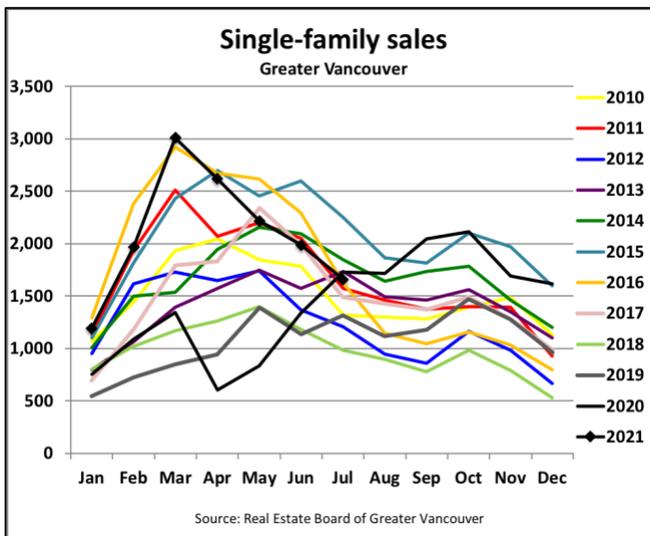
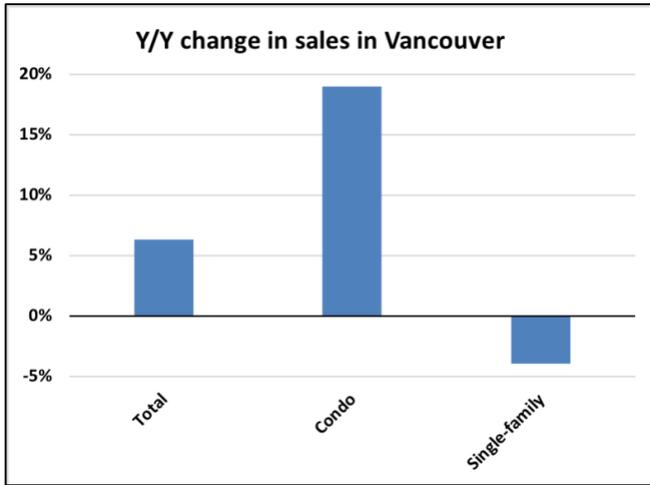


However, cash flow may be less important in a low interest rate environment. Consider that with over 60% of mortgage payments going to principal from day 1, the typical investor is seeing \$1,100 of principal repayment monthly even if they are out of pocket a few hundred bucks up front on the carry. In other words, "net wealth creation" is still strongly positive at ~\$800/month, not including potential capital gains.

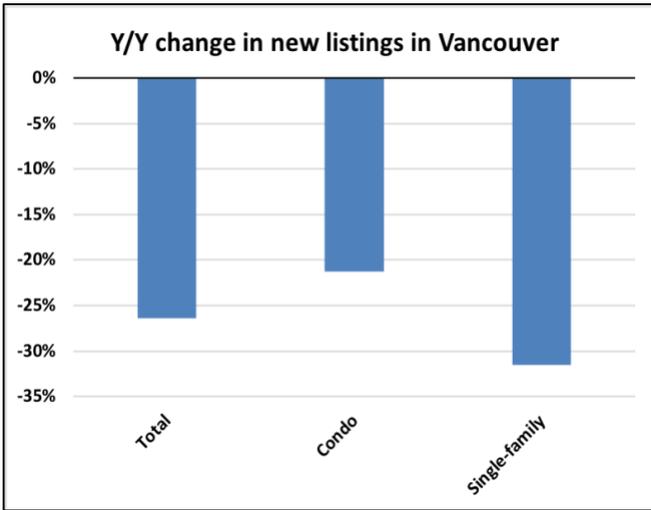
That dynamic, plus hefty appreciation in recent years, helps explain ongoing investor demand for a cash flow negative investment.

3) Vancouver home sales slow but new listings hit 10-yr lows

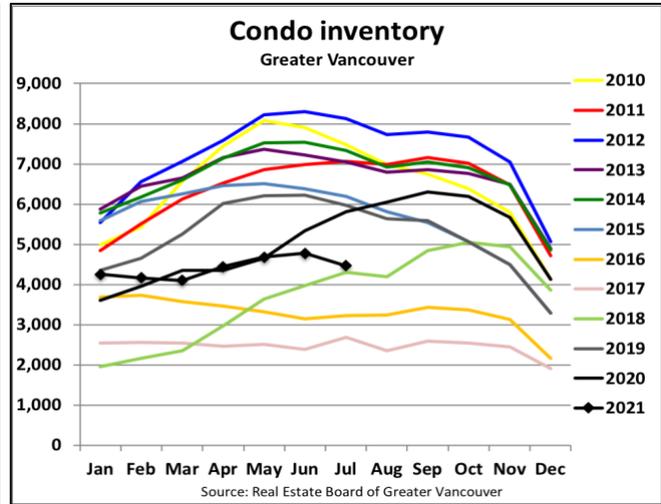
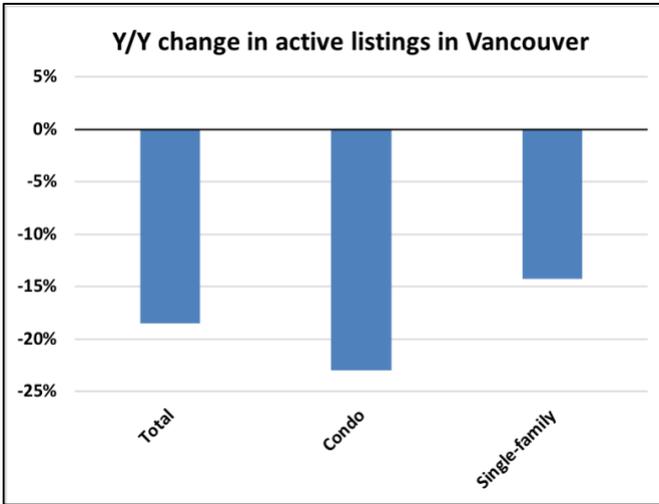
Vancouver home sales were up 6.3% y/y in July. As in Toronto, there was a sharp divergence between single-family sales (-4% y/y) and condo sales (+19% y/y) which likely partially reflects changing migration patterns back towards the city core.



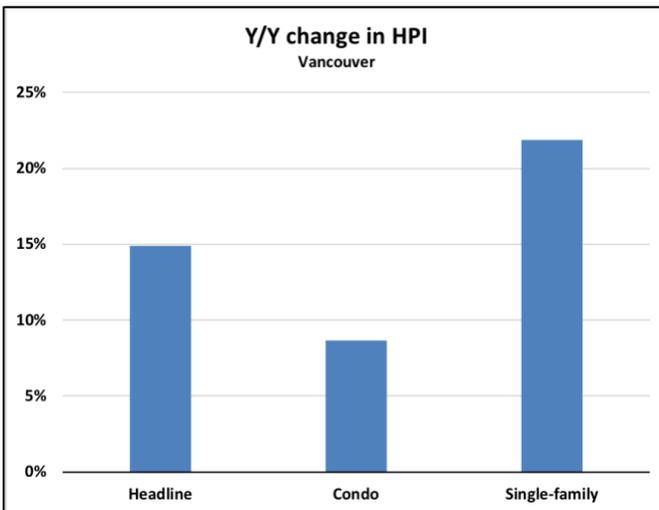
New listings plunged 26.4% y/y to hit the lowest July levels since 2009.



Active listings fell 18% y/y:

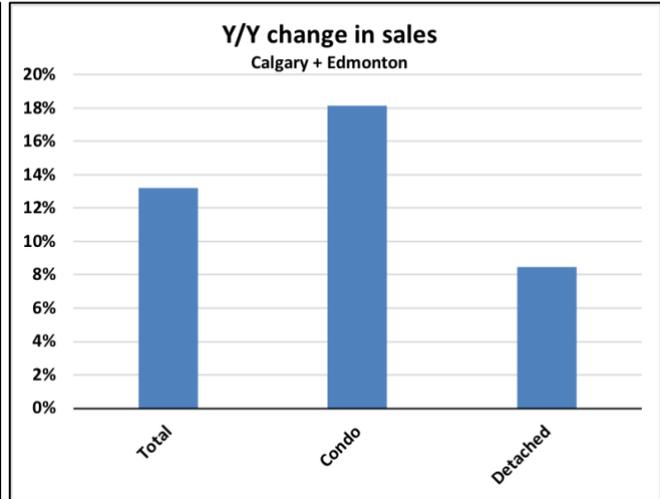
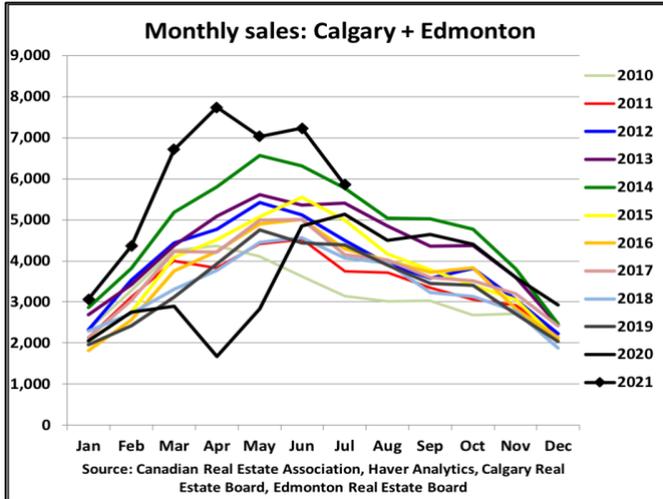


The MLS House Price Index was up 15% y/y including a 22% increase in the single-family segment:

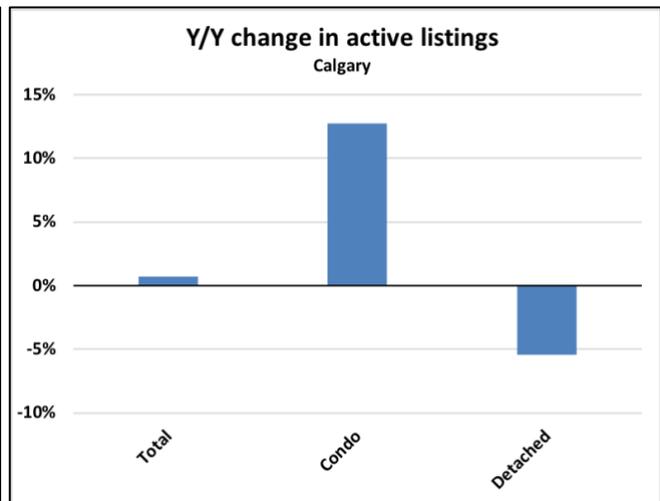
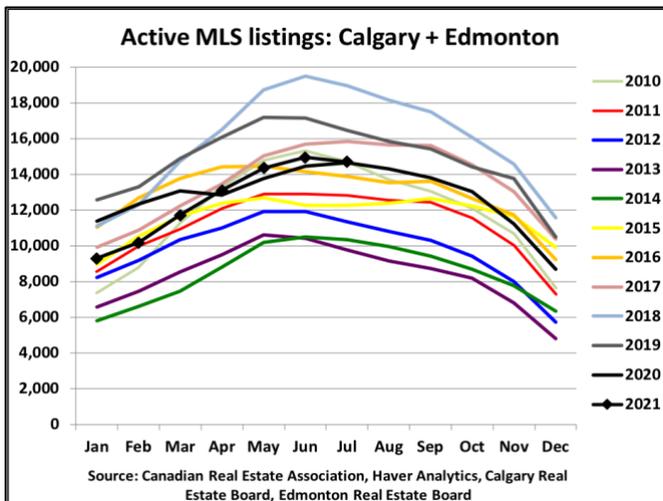


4) Strong sales activity continues in Calgary and Edmonton, price growth accelerates

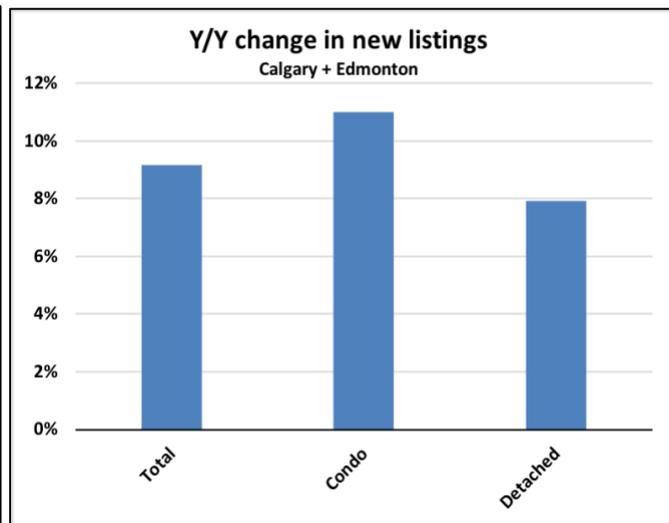
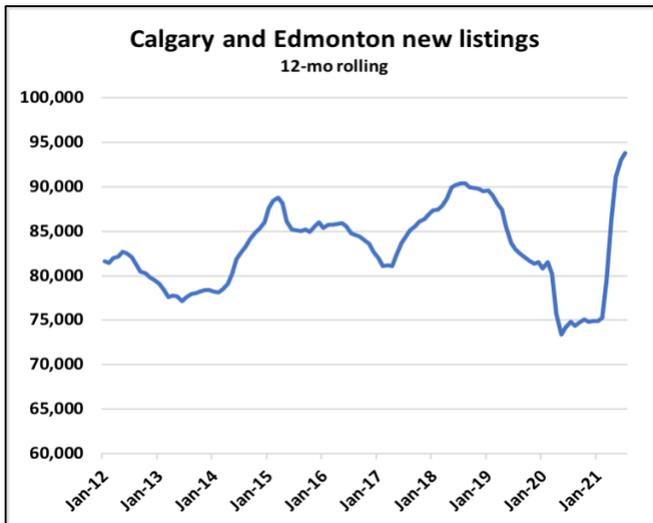
Home sales in Calgary and Edmonton were up a cumulative 14.1% y/y in July including an 18% increase in condo sales:



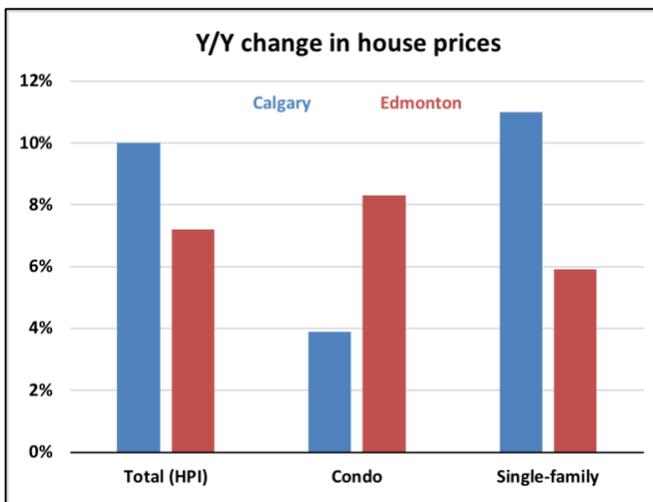
Active listings were flat y/y:



Unlike in Toronto and Vancouver, new listings in Alberta are coming to market at a record rate. We've now seen 5 consecutive monthly records for new listings in Calgary and Edmonton, with July's tally up 9.2% y/y.

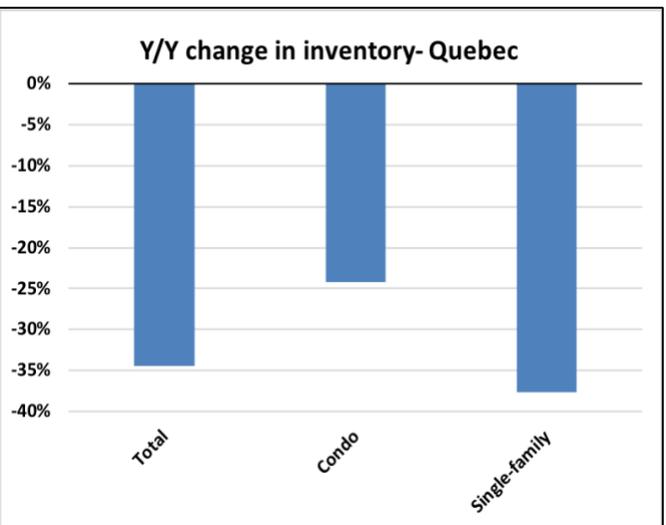
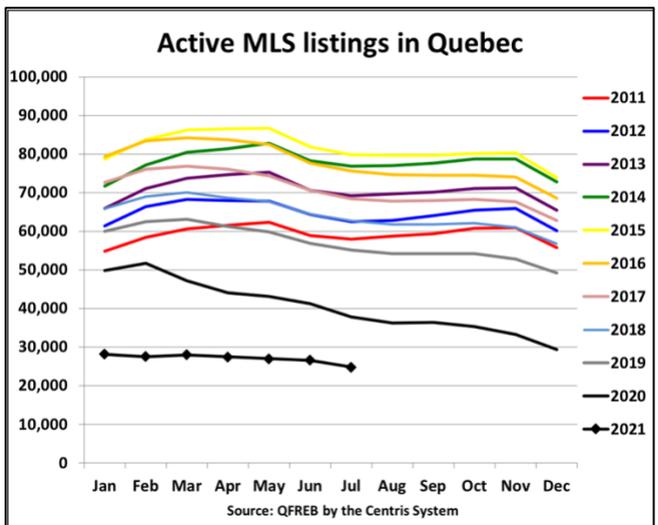
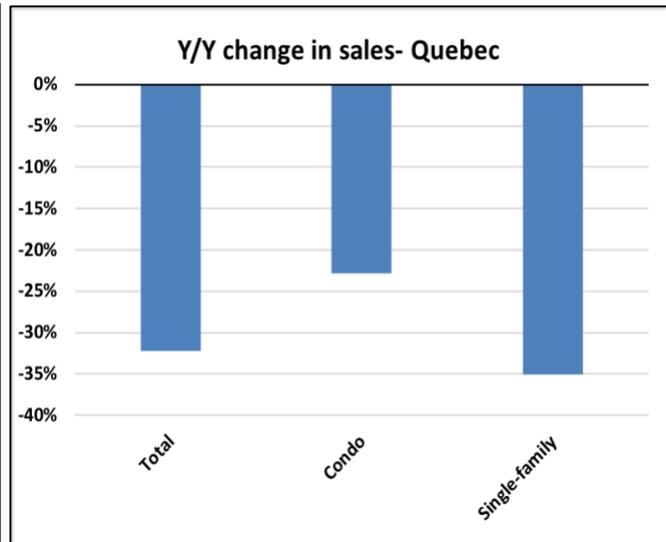
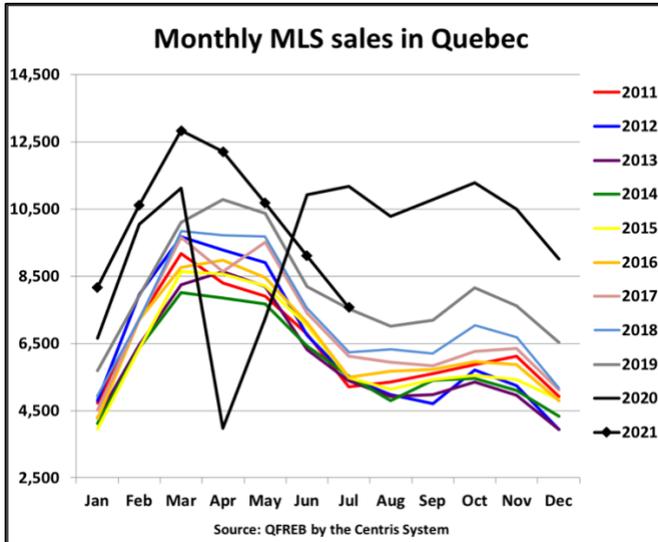


House prices continue to accelerate in both metros with Calgary up 10.0% y/y and Edmonton up 7.2%:

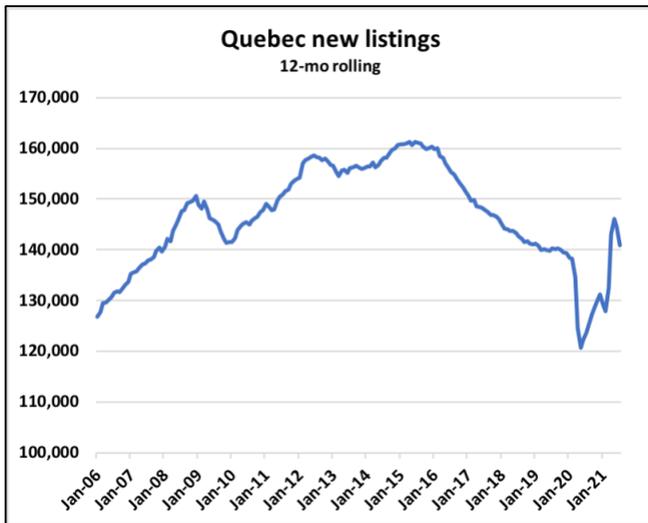


5) Quebec home sales tumble 32% y/y, active listings hit new lows

The decline in Quebec home sales off the March peak has been quite stunning, but it's too early to say whether this is a function deteriorating fundamentals or simply a reflection of a dramatic decline in available inventory. You can't buy what's not for sale! And with active listings at less than 1/3 of normal levels, it may be no surprise that home sales across the province fell 32% y/y overall including a 39% decline in the single-family segment:



New listings were down 29% y/y and remain well below normal levels:



Median price growth is well off the peak of 40% y/y for single-family homes back in the spring, but gains are still solid at 19% y/y for condos and 21% for single-family homes:

