January 2022
Metro level deep-dive

Quick links:

1) Economic commentary: Markets look through Omicron-induced job losses

2) Shades of 2017: Toronto housing boom hits new absurd heights

3) Vancouver loses crown as most expensive market….sort of

4) Calgary now the most exciting market in the country

5) Quebec home sales fall 25%: Inventory shortage or buyer fatigue?

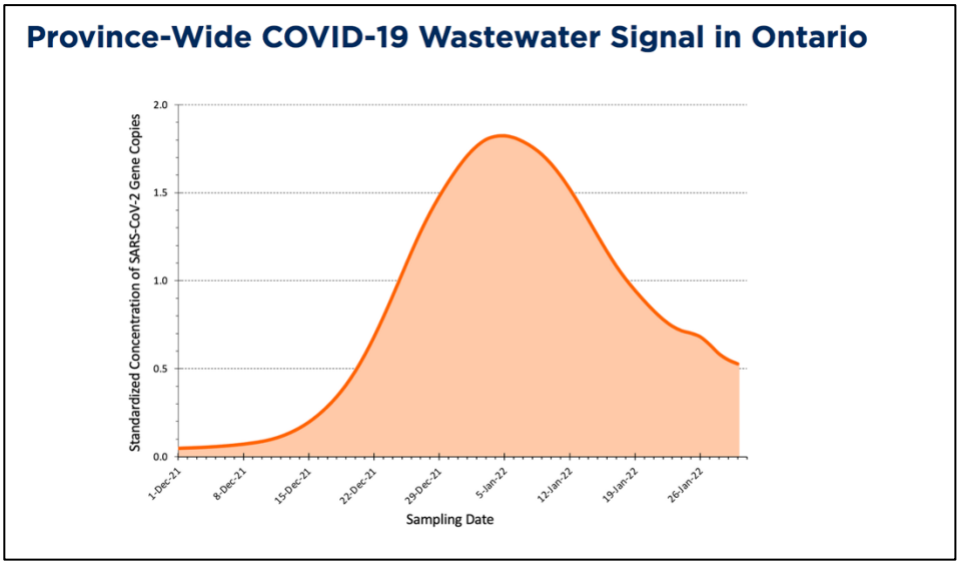
Key takeaways:

- The Omicron wave is clearly dissipating. Markets are looking through the economic fallout from these lockdowns and are instead focused on Bank of Canada rate hikes, with the first likely coming in March.
- Toronto has now surpassed the crazy price appreciation levels seen in 2017, and that puts policy makers in a real pickle.
- Vancouver has lost its crown as the most expensive market based on MLS benchmark prices, but there are some important nuances in that discussion.
- Calgary is the most exciting market in the country for the first time since 2007. I've been pounding the table on this point for a year now. Investors are only beginning to figure it out. There's a long runway of value in Alberta real estate.

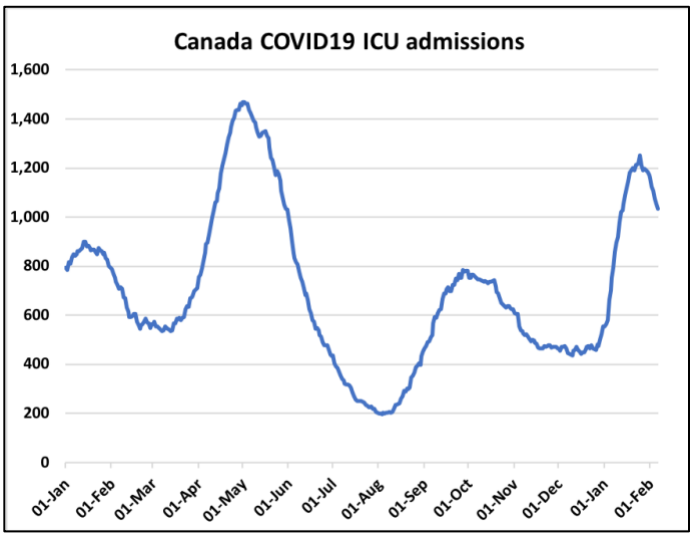
1) Economic commentary: Markets look through Omicron-induced job losses

In last month's Metro Deep Dive, I suggested that the Omicron peak was likely already behind us, which was an out-of-consensus call given all the hysterics in the media at the time.

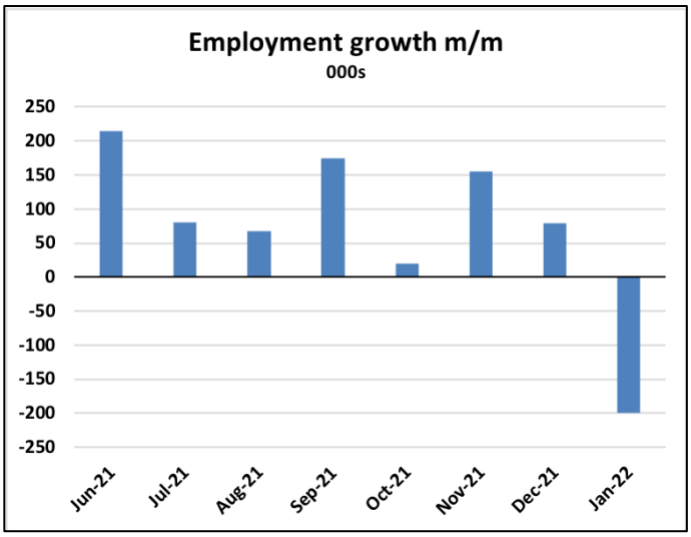
With the benefit of a bit of hindsight, it's clear that was the right call. My entirely unqualified opinion is that people will now likely be surprised at how quickly the Omicron wave dissipates. Already, COVID wastewater signal is suggesting that population-wide infection rates are back to levels seen in early December:



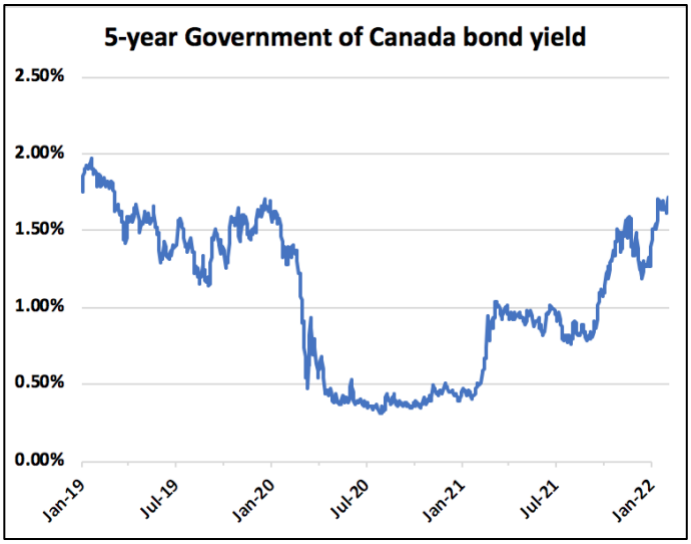
And we can see this in the ICU admissions for COVID across the country which are falling sharply off the recent highs. It's also noteworthy that admissions never got to prior peak levels in spite of massive headline infection rates…further confirmation that Omicron really was/is a much less virulent strains:



Still, the impact of the Omicron wave and the associated lockdowns was evident in last week's jobs reports which showed a massive 200,000 decline in headline employment across the country, the largest such decline since April 2020:



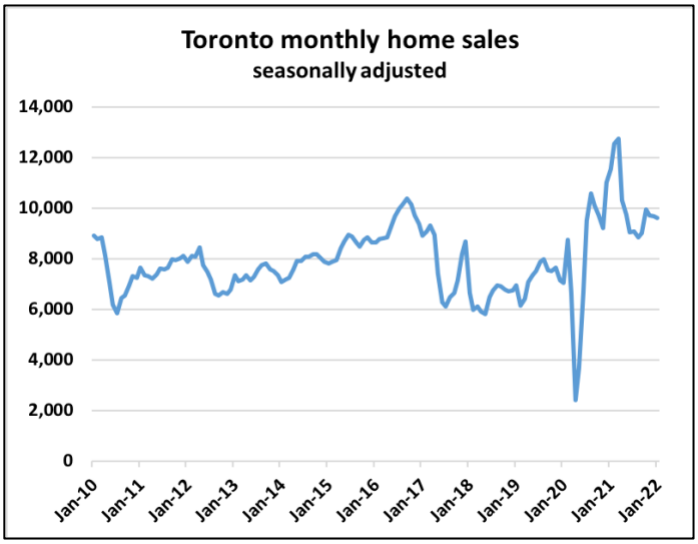
Now normally a drop in employment of that magnitude would cause a decline in bond yields as investors reconsider rate hike expectations, but that wasn't the case this time. Clearly markets are looking at this as a temporary, one-off decline that will be quickly recovered once the economy reopens. Yields barely budged on the news, and the all-important 5-yr bond yield ended last week at the highest level since 2019:

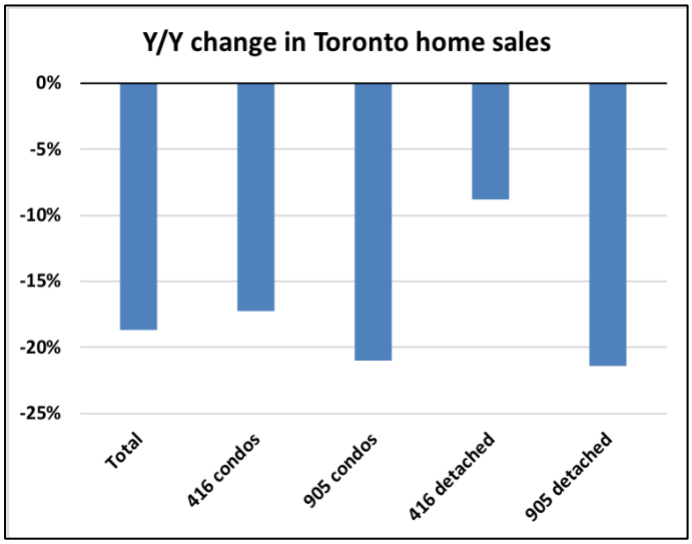


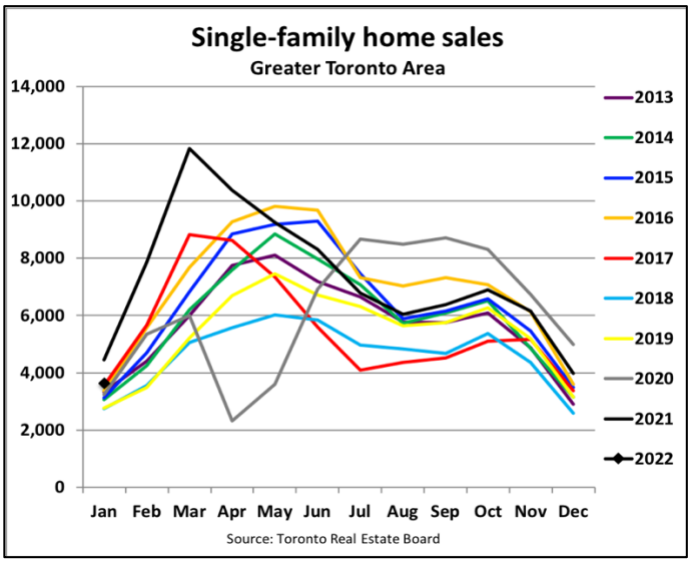
The concern now shifts away from Omicron and towards interest rate hikes as a potential economic risk. You can safely pencil in at least a couple hikes this year with the first likely next month, but with the housing market clearly entering a whole new phase of euphoria as detailed below, and with consumer prices still running very hot, the risk of an upside surprise on rates this year is mounting.

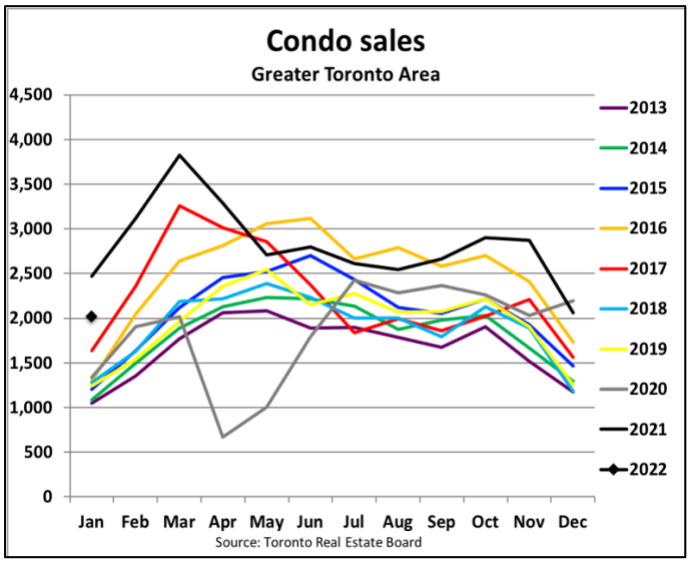
2) Shades of 2017: Toronto housing boom hits new absurd heights

The housing crisis in Toronto hit a new level in January. Yes, sales were down nearly 19% compared to last year and were even down a touch on a monthly basis (seasonally adjusted) but they remain well above pre-pandemic levels.



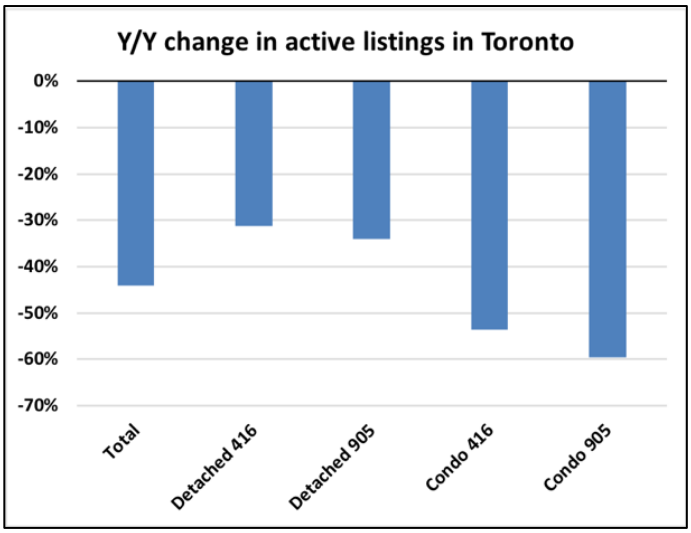


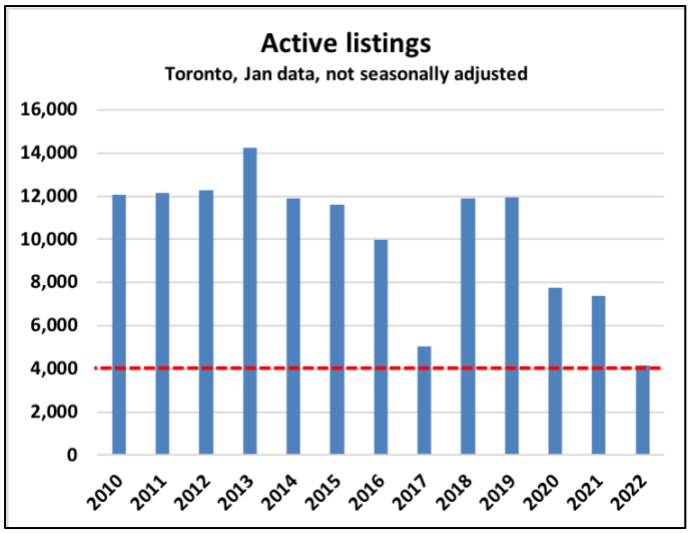




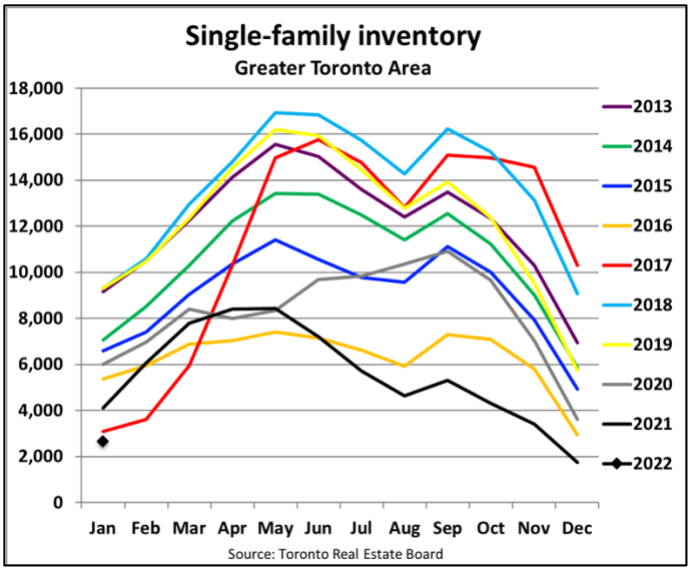
If you're only watching the demand side, you're missing the real story here.

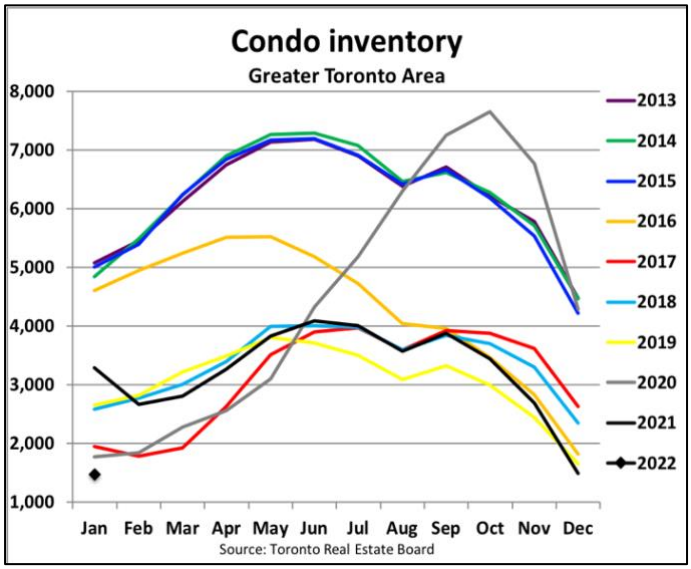
New listings remain roughly 12% below decade norms for the month. With strong demand and a weak flow of new supply, the net result is that active listings continue to plunge, down nearly 45% compared to this time last year and down by 2/3 compared to 2019 levels:



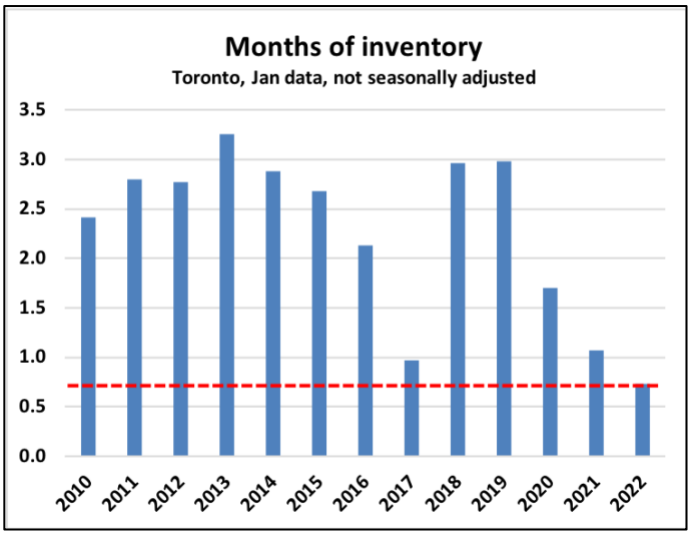


Inventory in both the single-family and condo segments are at their lowest levels in at least 20 years:



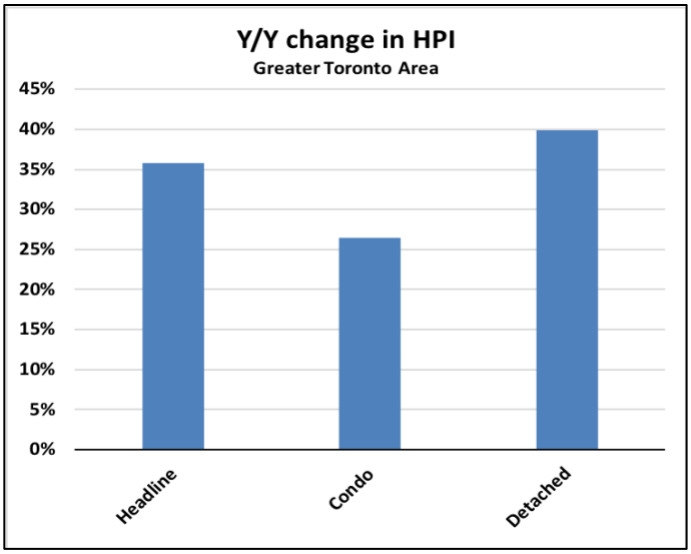


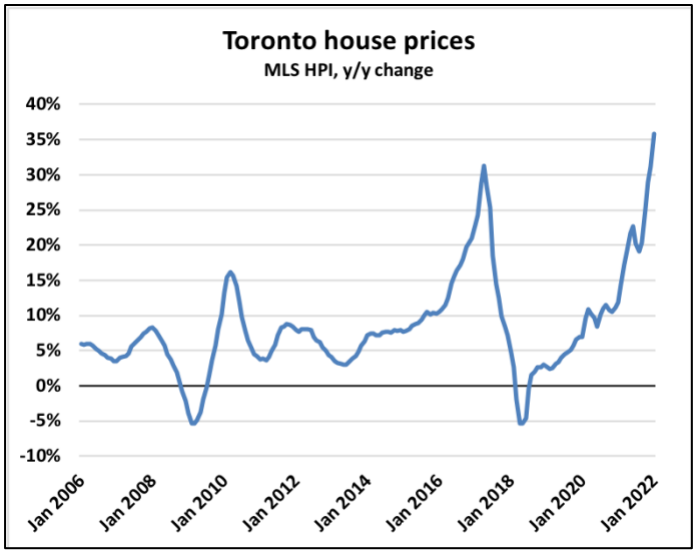
Months of inventory has hit new lows for the month at just 0.7!



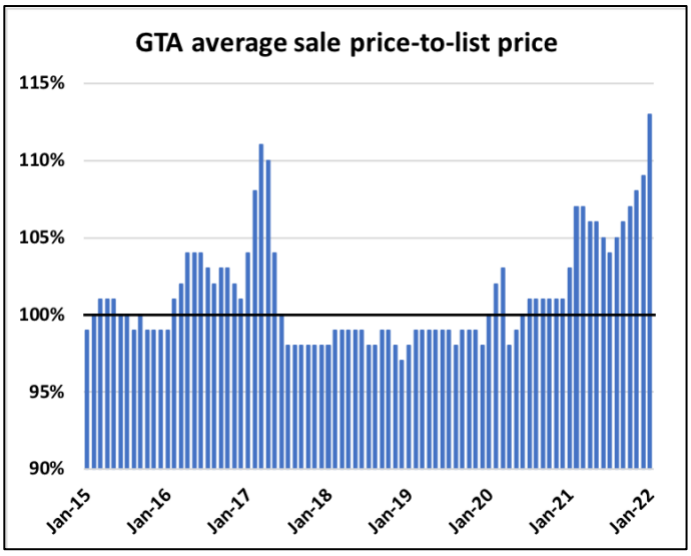
That level of market tightness is creating a price squeeze as buyers are forced to compete harder for scarce listings. Seasonally adjusted average house prices jumped 6.9% on the month!

The MLS House Price Index (HPI) surged 36% y/y and nearly 40% for detached homes.



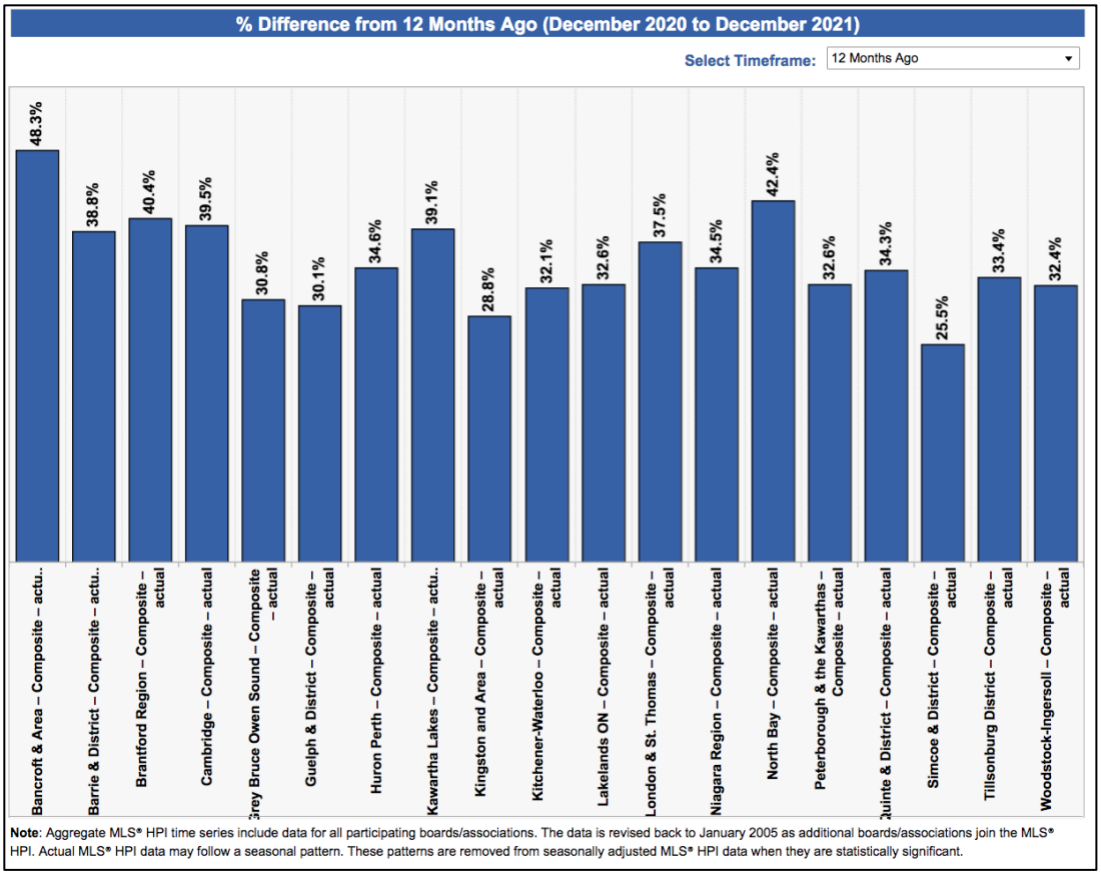


In another sign of just how frothy the market is, the average home sold for a record 113% of list price in January, eclipsing the 2017 highs:



We've now surpassed 2017 peak price acceleration levels. Back then, these prices forced regulators and policy makers to tighten mortgage underwriting and implement a foreign buyer tax. The difference then was that it was almost entirely a Toronto story, and more specifically a north Toronto/York Region story at that.

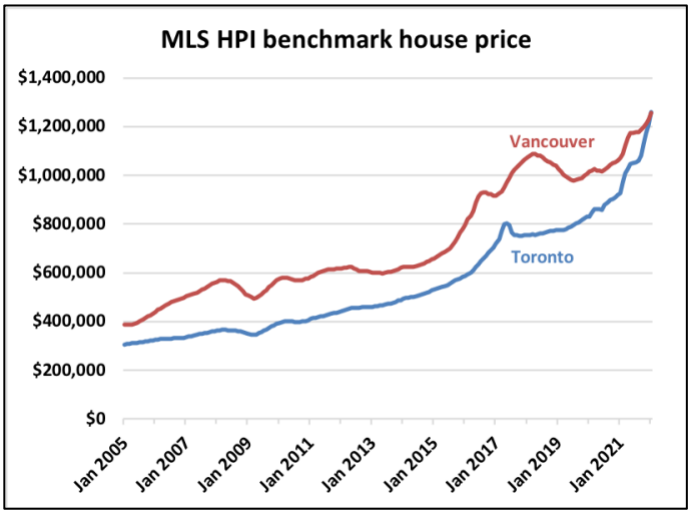
It's very different now. Every part of the province is seeing price gains in the 25-50% range right now.



This will force the hands of regulators and policy makers. Expect to see a number of measures before the spring selling season kicks off in earnest.

3) Vancouver loses crown as most expensive market….sort of

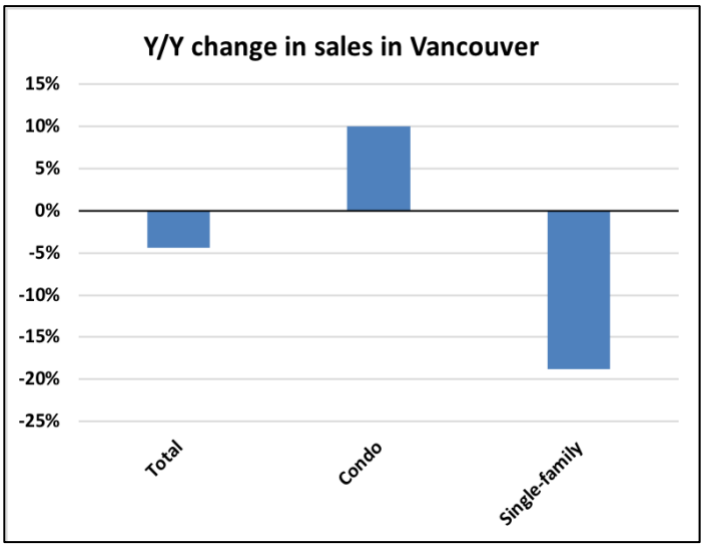
Vancouver is no longer the most expensive market in the country. Benchmark house prices in Toronto surpassed Vancouver's for the first time in at least 20 years:

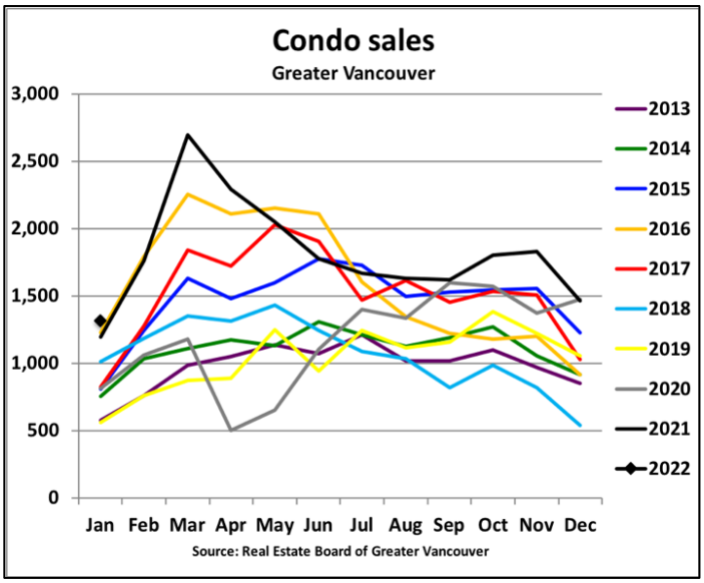


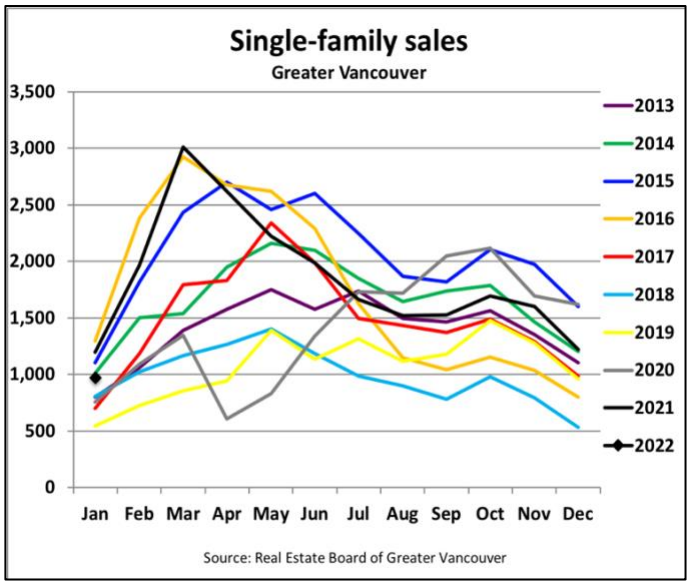
Now it's not exactly a perfect comparison. The benchmark is meant to represent the "typical" home in a region based on the housing stock. The reality is that houses are on average slightly larger in Toronto with typically 1 more bedroom than in Vancouver. So it's not an "apples to apples" comparison, but it's still indicative that Toronto is seeing much faster price appreciation than in Vancouver right now.

That's not to say that things are tame in Vancouver. Not in the least!

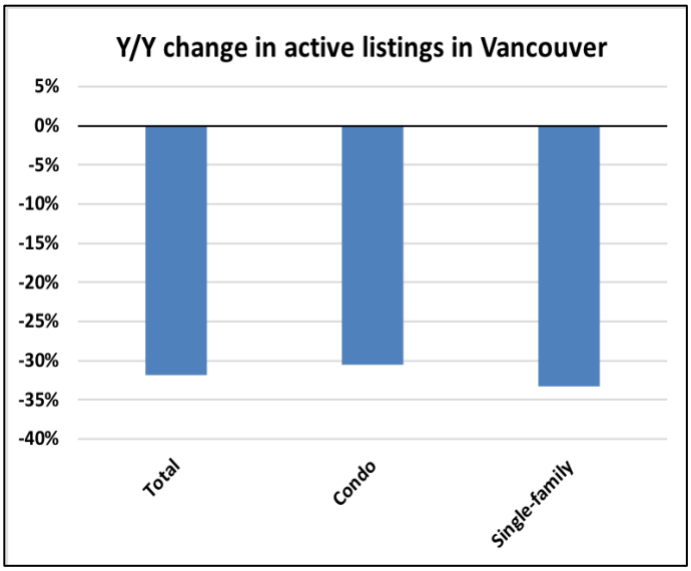
Vancouver home sales were down roughly 5% compared to last January (including an 18% decline in single-family sales) but they did surge by almost 10% on a seasonally adjusted basis relative to December, and they remain way above pre-pandemic levels and are at record levels in the condo segment:

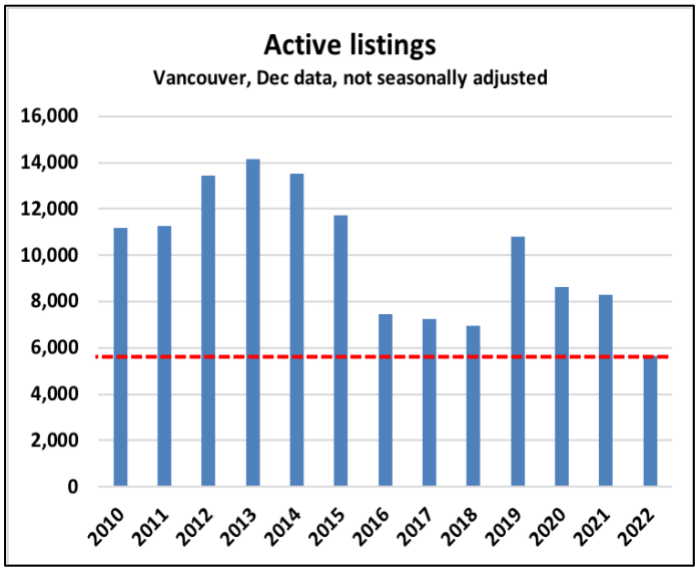


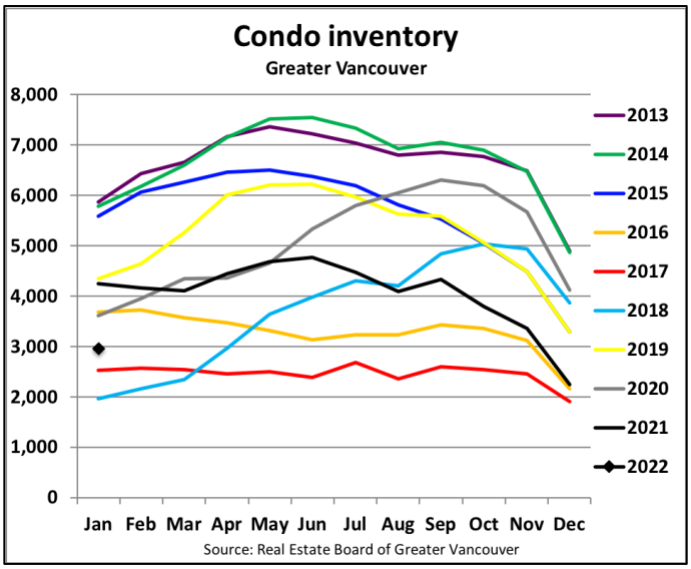


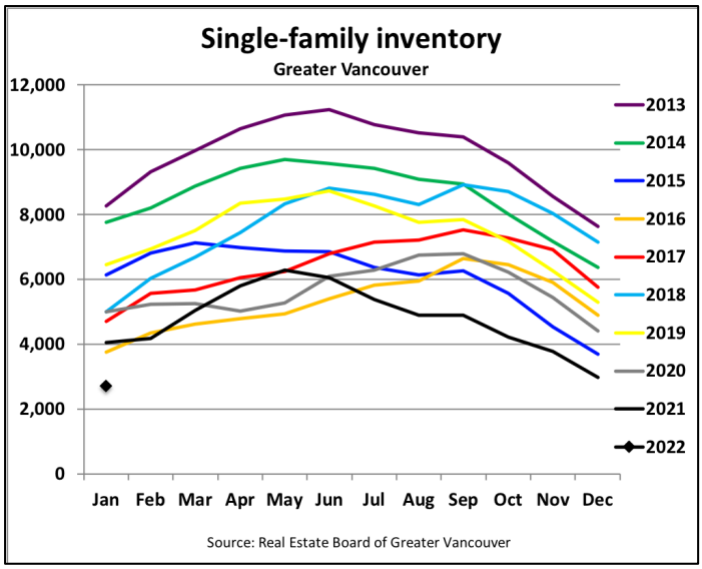


Active listings were lower by 32% compared to last year and down by half relative to 2019 levels. The shortage is most acute in the single-family segment where there are currently fewer than 3,000 active listings:

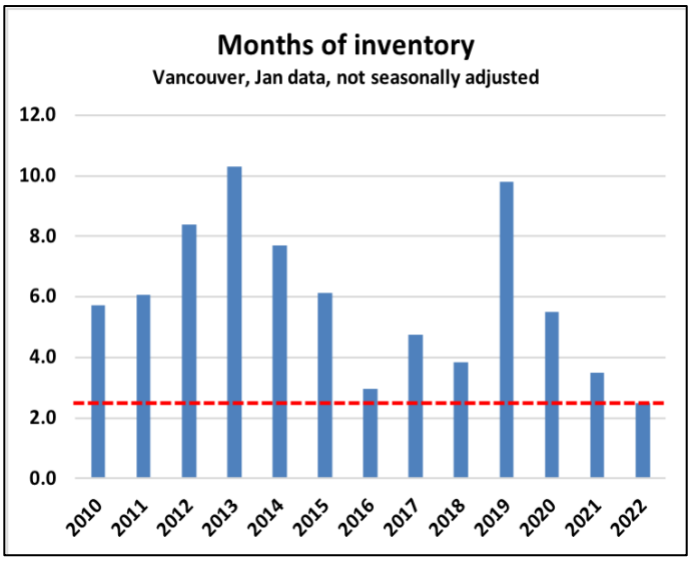




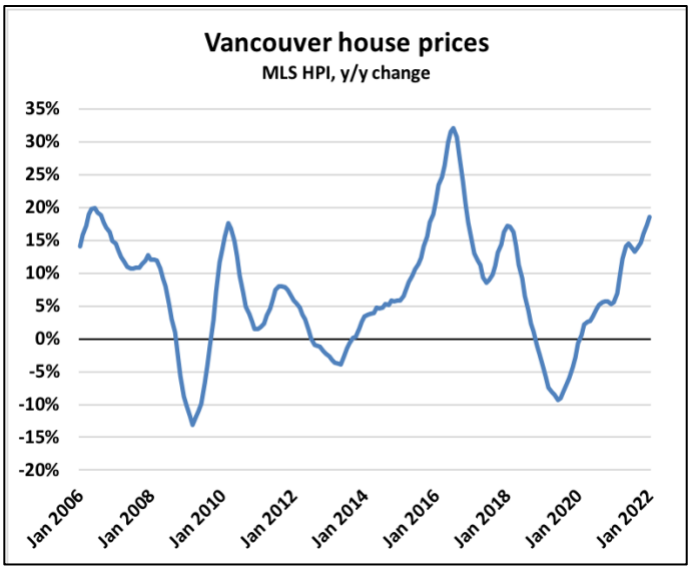


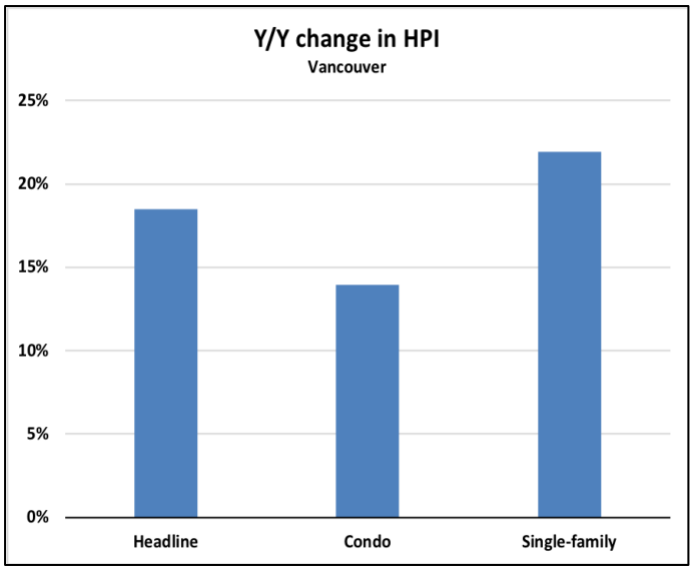


Months of inventory fell to 2.5, the lowest to start any year since at least 1990:



Price gains are accelerating. The MLS HPI was up 18.5% y/y including a 22% increase in the single-family segment. Given how tight the market is, I would expect price gains to continue accelerating into the spring:

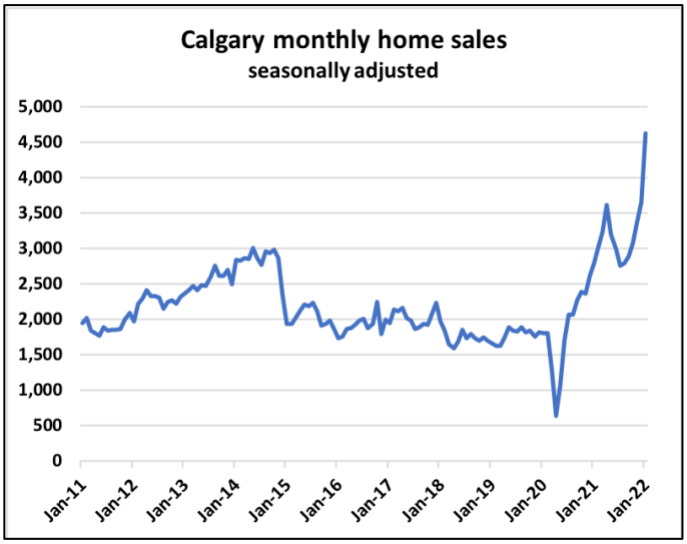


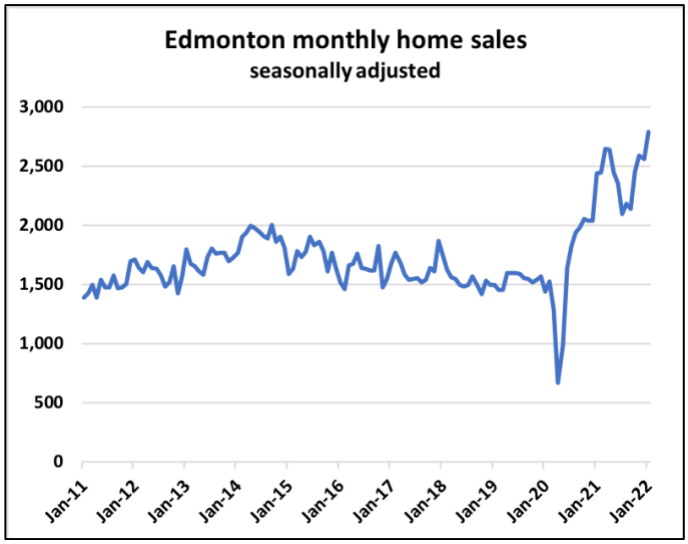


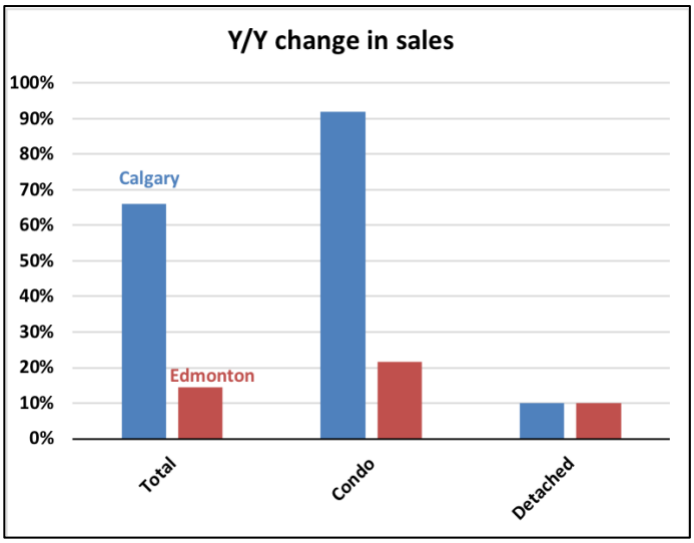
4) Calgary now the most exciting market in the country

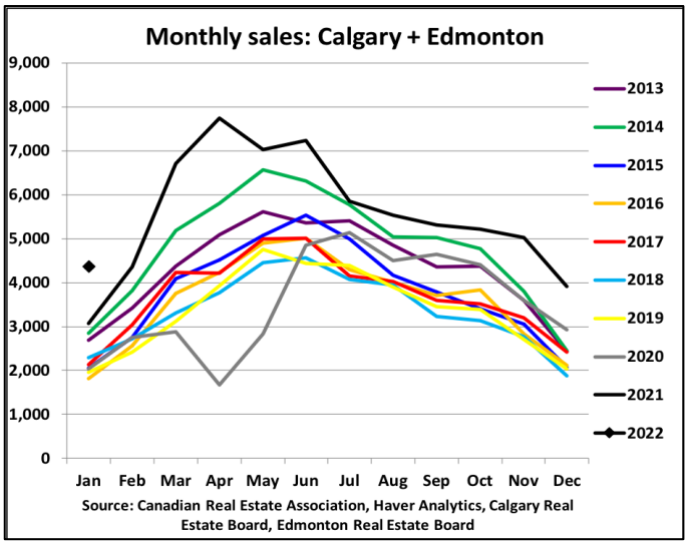
I've been pounding the table on Alberta as a "catch-up" trade for almost a year now, and we're starting to see that thesis play out. Calgary is now the most exciting market in the country for the first time in 15 years.

For starters, just look at the trend in seasonally adjusted home sales: Absolutely ripping!!! In fact, home sales in Calgary we up a massive 66% y/y in January!

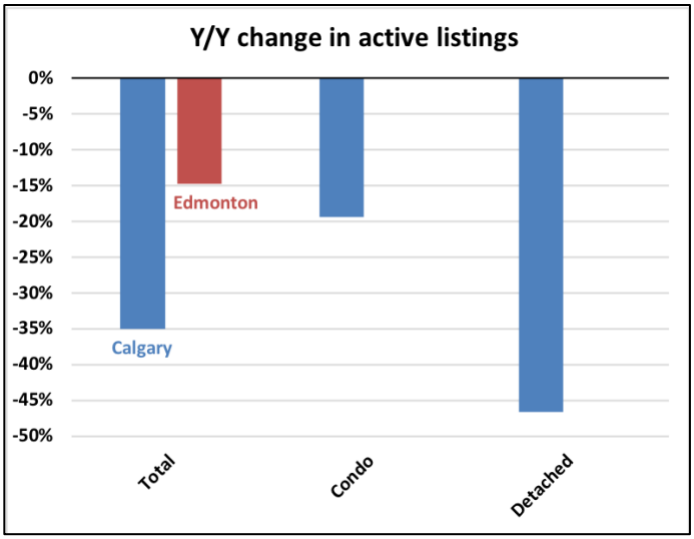


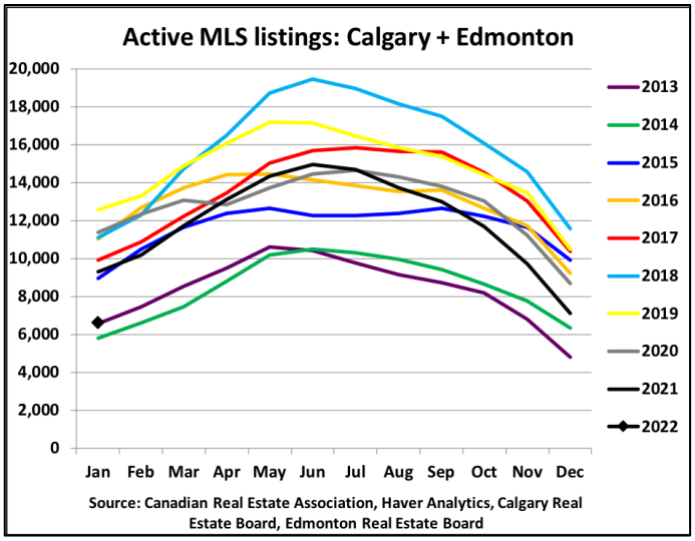




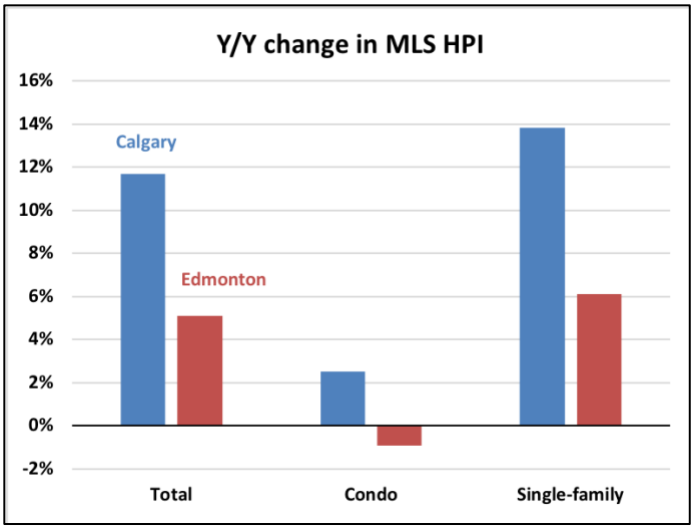


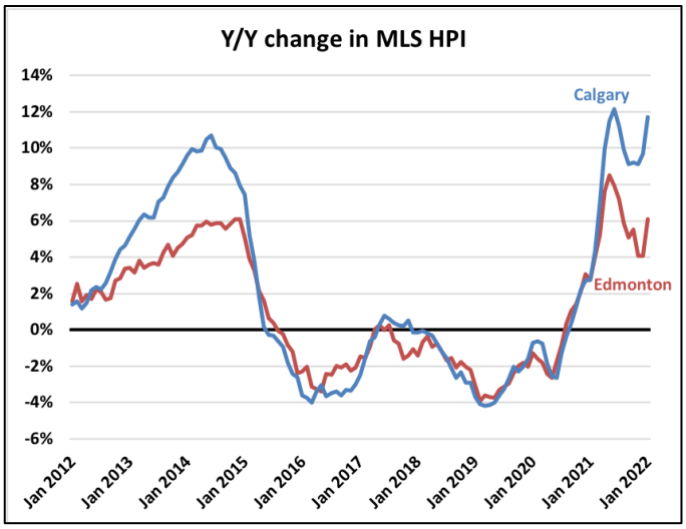
At the same time, inventory levels are plunging and were down 35% y/y in Calgary and 15% in Edmonton in January:





Prices are picking up steam with Calgary's HPI up nearly 12% y/y and Edmonton's up 5%.

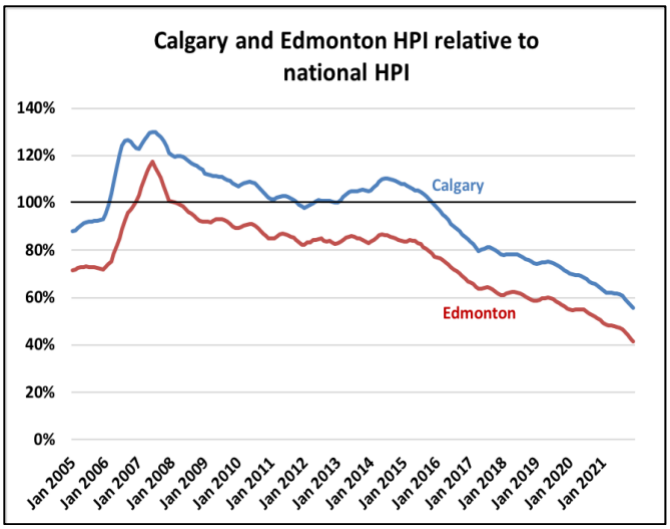




As the saying goes, “low prices are the cure for low prices”. The rest of the country is waking up to the fact that housing in Alberta is absurdly cheap in spite of solid economic momentum. Consider:

> **House prices draw Ontario buyers to Alberta -*The Globe and Mail*[1]**
>
> […] The sale of her two semi-detached houses in midtown Toronto, one her home and the other an investment property, allowed her to purchase a more spacious home in Calgary’s southwest community of Canyon Meadows, as well as three additional investment properties in adjacent neighbourhoods in the south of the city.
>
> “It feels like winning the lottery,” Ms. Anderson says. “For someone who’s got Toronto real estate PTSD, it felt amazing to look at what we can buy [in Calgary].”

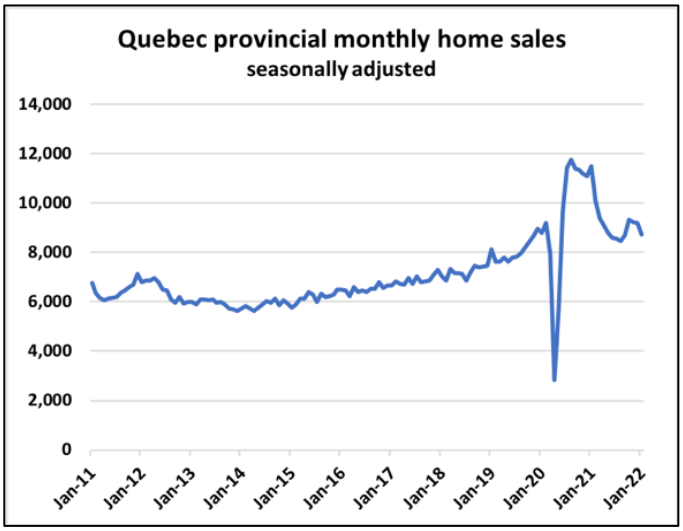
Lest you wonder if perhaps you’ve missed the move, let me remind you that houses in Calgary for most of the 2000s traded at a premium to the national average. They now trade at a 45% discount. I expect that gap will narrow substantially in coming years as prices here outperform other big cities. The Alberta trade is still in the early innings:

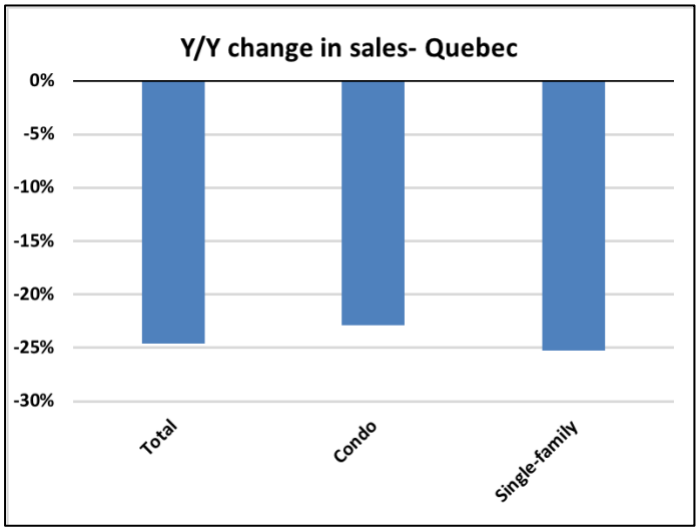


[1] https://www.theglobeandmail.com/real-estate/calgary-and-edmonton/article-house-prices-draw-ontario-buyers-to-alberta/

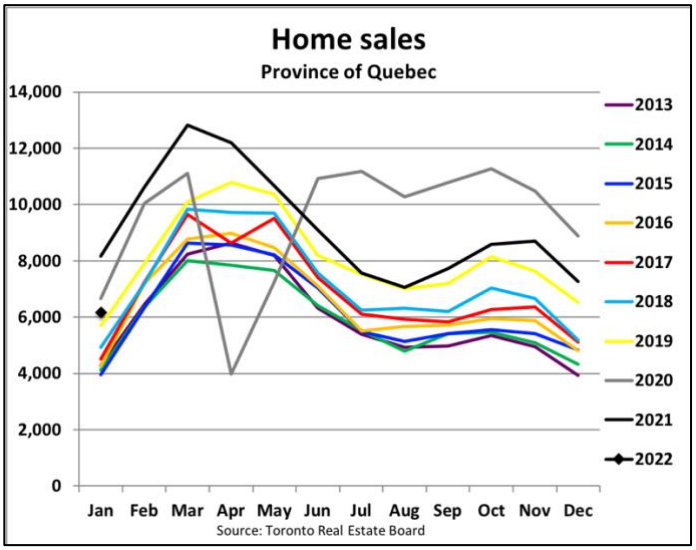
5) Quebec home sales fall 25%: Inventory shortage or buyer fatigue?

Home sales in Quebec are starting to look a little squishy. Seasonally adjusted home sales were down an estimated 5.3% m/m in January and down a whopping 25% compared to last year.

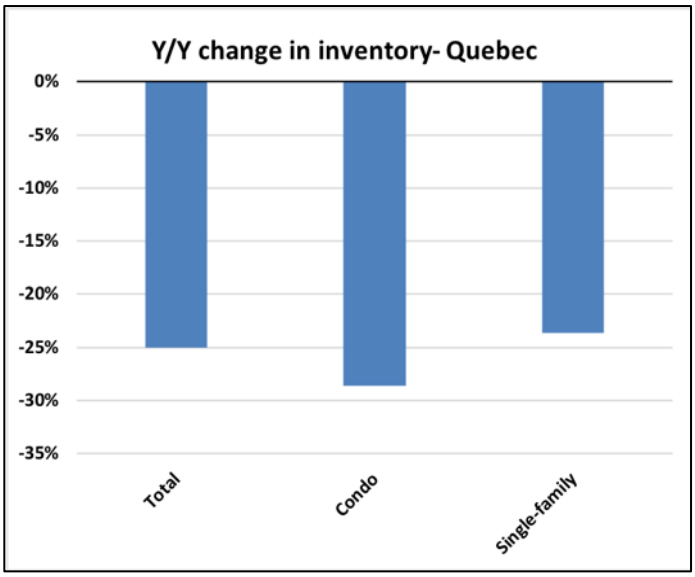


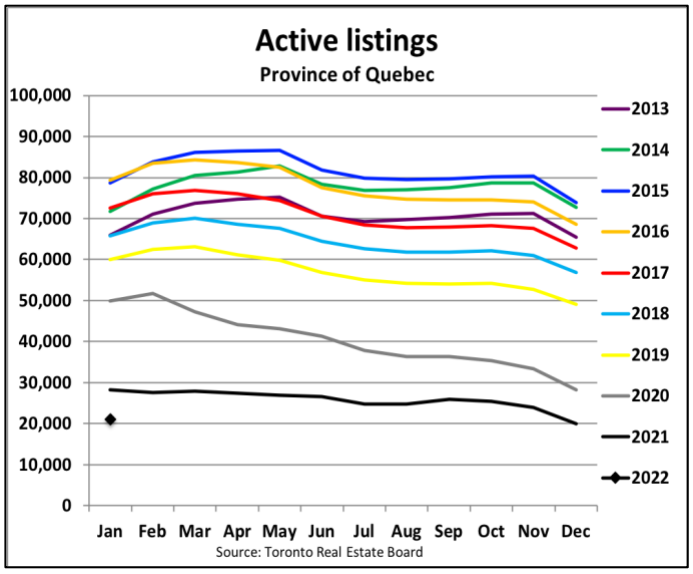
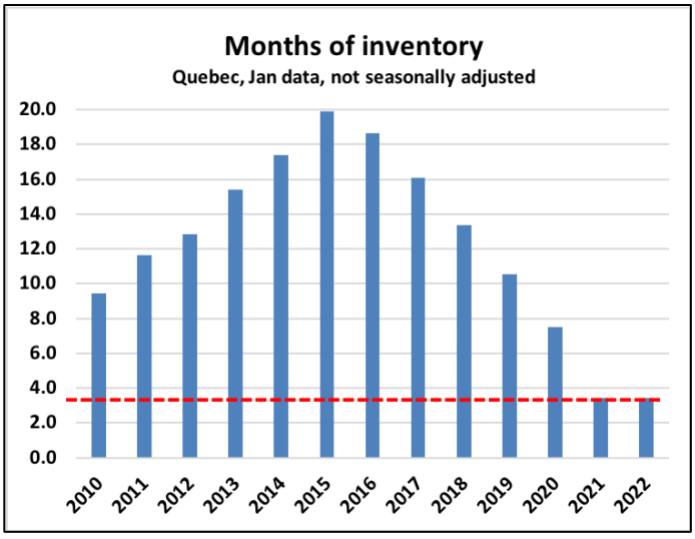
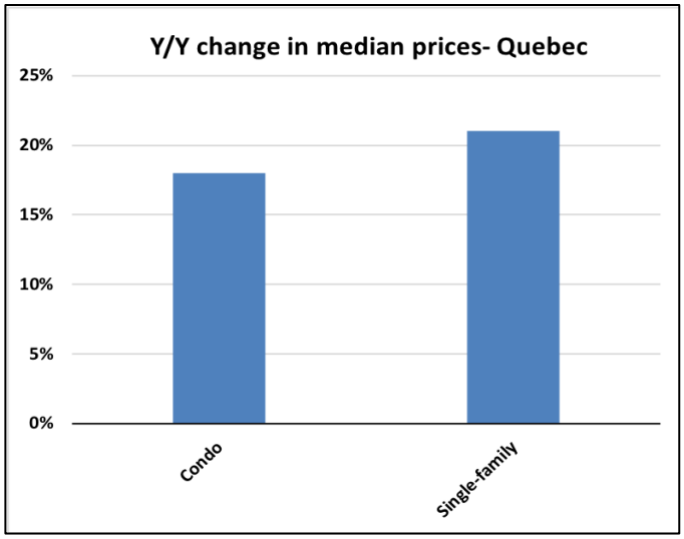


The y/y comparison is a bit unfair when we look at just how crazy 2021 was:



The story may simply be that a lack of supply is constraining demand. After all, inventory is down 25% y/y across the province and down 75% from 2016 levels:





Months of inventory has fallen from a high of 20 (!!!!) back in January 2015 to just 3.5 today.