



April 2022 Metro level deep-dive- March data

Quick links:

- 1) Economic commentary: The only chart that matters**
- 2) Clear signs of a sudden shift in Toronto**
- 3) Vancouver sales fall 24%, but still no supply**
- 4) Alberta booms as population flows pick up steam**
- 5) Quebec home sales continue to slow off record pace**

Key takeaways:

- It looks increasingly likely that I'll be proven spectacularly wrong on my 2022 interest rate forecast, and that has real implications for housing demand. Herein, I present what will likely end up being the most important chart of the year.
- The signposts of a slowdown in Toronto are now clear if you know where to look.
- Rental economics on resale condos are deteriorating sharply. If that trend doesn't change, expect a slowdown in demand and a sharp increase in supply this year.
- Vancouver sales are weaker compared to last year, but unlike Toronto, there has not yet been a significant supply response.
- Alberta continues to impress. Sales are simply off the charts with no end in sight. The "catch-up" trade is still intact.

1) Economic commentary: The only chart that matters

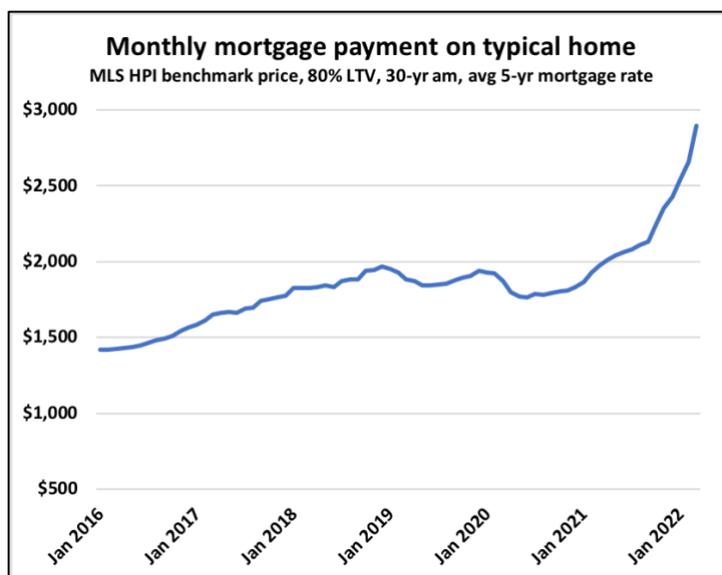
i) “People don’t buy houses, they buy payments”

If that old saying is true, then we’ve got a real problem.

Yes, population growth is exceptional in Canada. Yes, we are structurally under-building single-family units. Yes, resale markets across the country are incredibly undersupplied. Yes, the employment backdrop looks fantastic.

But even with all those tailwinds, it’s hard to avoid at least a cyclical downturn in resale activity when carrying costs explode higher the way they have. The chart below may be the single most important chart to watch this year. It shows the monthly mortgage payment to buy the typical home in Canada (as measured by the MLS HPI benchmark price), financed at 80% LTV at average 5-yr mortgage rates (here I’m using the average of the discretionary 5-yr fixed and variable mortgage rate).

The key takeaway: By this simple measure, mortgage payments have risen by \$700 per month in since late 2021.



No, it’s not a perfect measure, but it’s broadly indicative of what’s happening on the affordability front. And even with all the bullish economic indicators, Canadians just cannot absorb that sort of increase to carrying costs. Something has to give.

ii) Making matters worse, a 50bp rate hike is very much on the table this month

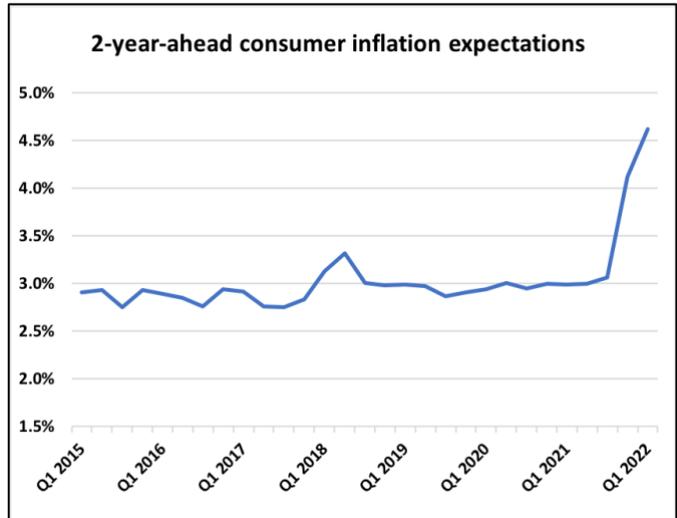
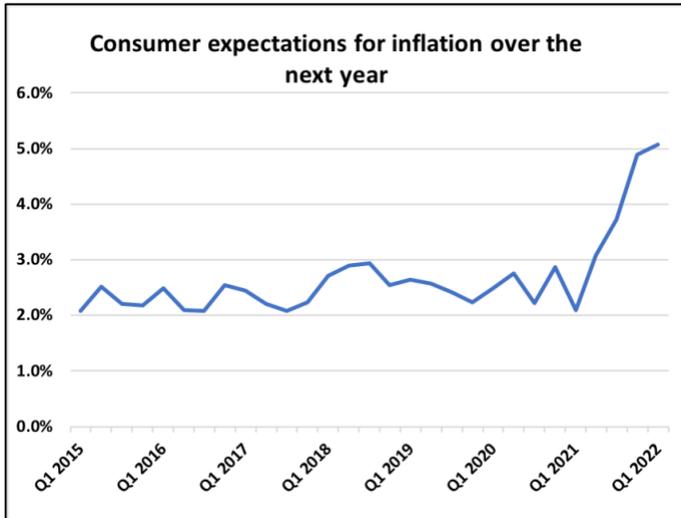
By now it’s becoming very clear that my 2022 interest rate outlook is probably going to be way off. I called for 2-3 hikes all year...now it looks like we may get 2 hikes in April alone.

It’s not the first time I’ve been spectacularly wrong, and it won’t be the last.

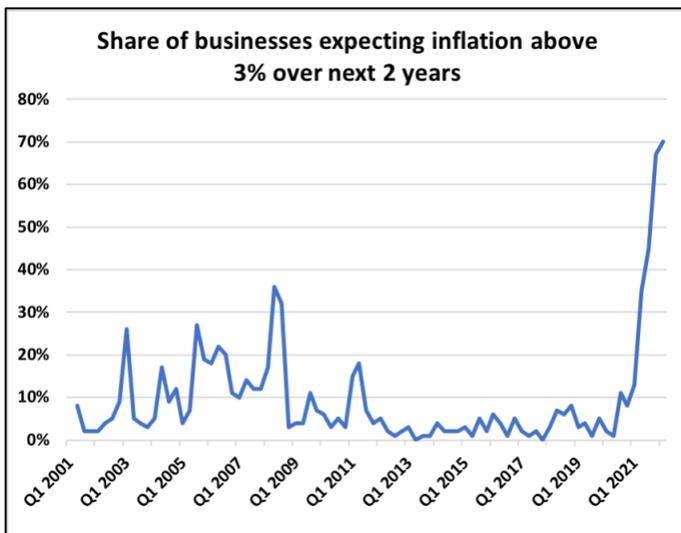
What we are seeing right now is not just the sharpest increase in inflation since the early 90s, but more importantly, the loss of confidence among Canadians that the Bank will be able to rein it in.

At risk of annoying readers by repeating myself, I’ll reiterate one more time that when consumers and businesses believe that inflation will REMAIN high, they pull forward consumption to today (ie businesses stock up on raw materials and other inputs, consumers spend on things today that they might otherwise save for). And when that happens, it risks creating a self-reinforcing cycle whereby rising demand creates rising prices, which feeds back into expectations, and in turn creates more demand. Rinse, repeat.

It's a pernicious dynamic that every central bank fears. I highlight it here the latest Consumer Expectation Survey this week showed that Canadians are now expecting inflation of 5% over the next year and 4.6% over the next two, a sharp increase from the average since 2015:



The same is true for businesses where 70% now expect inflation to average north of 3% over the next two years.



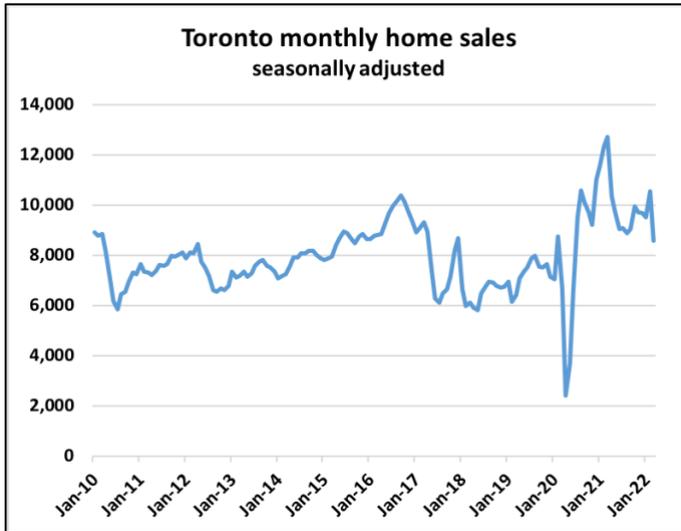
This is what it looks like when inflation expectations become unanchored. The Bank has to get ahead of this, and they know it. If ever there was an argument for a 50bp rate hike, it's now. We may get that on April 13.

2) Clear signs of a sudden shift in Toronto housing

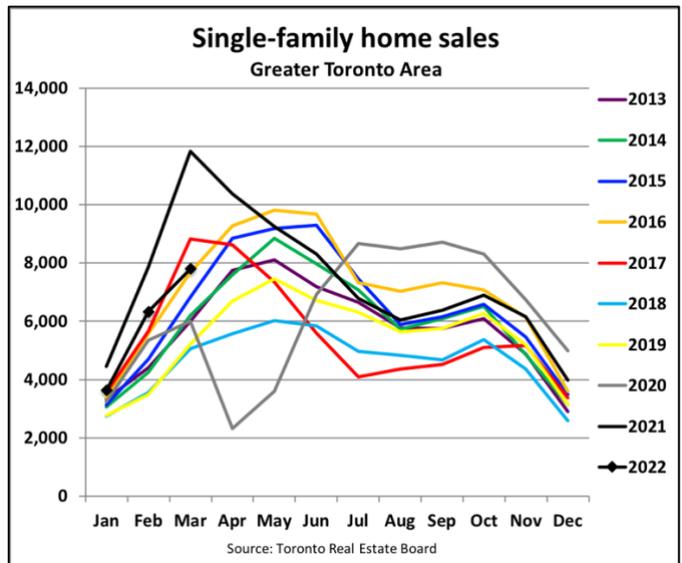
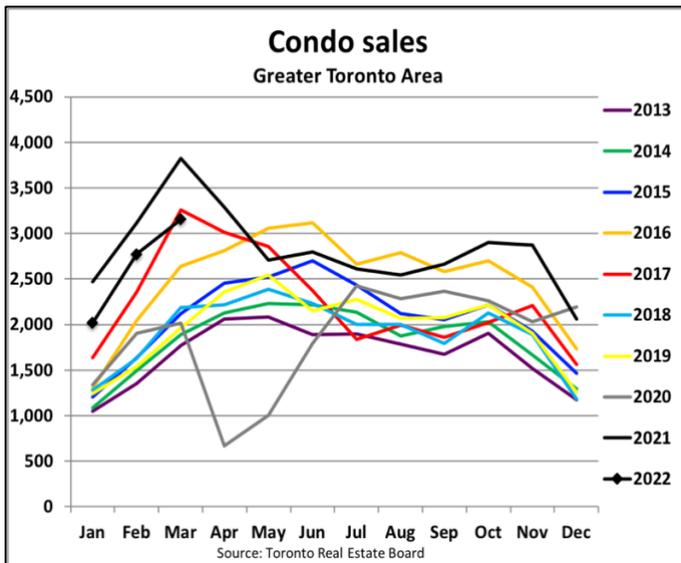
Toronto remains a very tight market overall, but the March resale data show clear signs that things are changing. Some key takeaways:

i) Steep decline in sales, lowest number of transactions since June 2020

Seasonally adjusted home sales plunged 18.6% m/m to hit the lowest levels since June 2020.

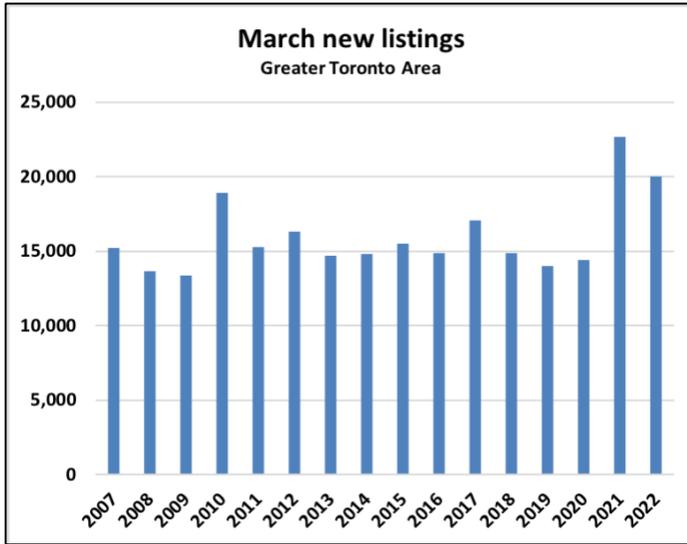


Unadjusted sales were down 30% y/y (-34% single-family, -17% condo), but be careful here. March 2021 was a record by far, particularly in the single-family segment. Sales are not weak by any means, though they look very likely to fall significantly from here once we exhaust the pool of prospective buyers with 90-day rate holds. These folks have mortgage approvals at rates up to 100bps below current levels, and they are highly motivated to transact.



ii) Another unusually large inventory build

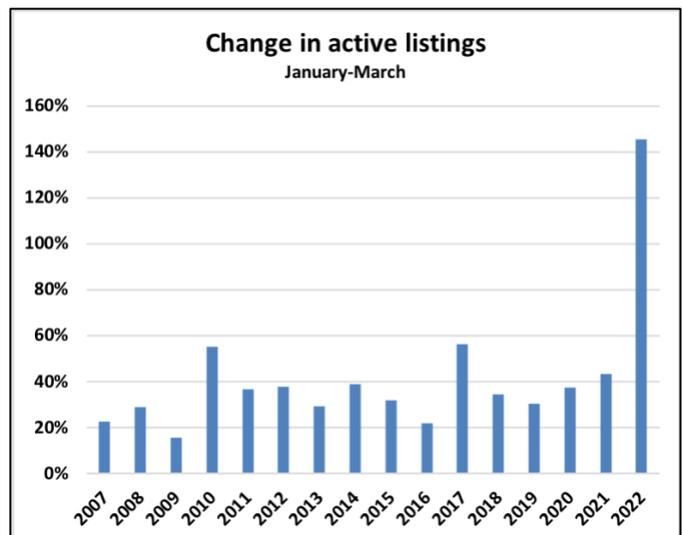
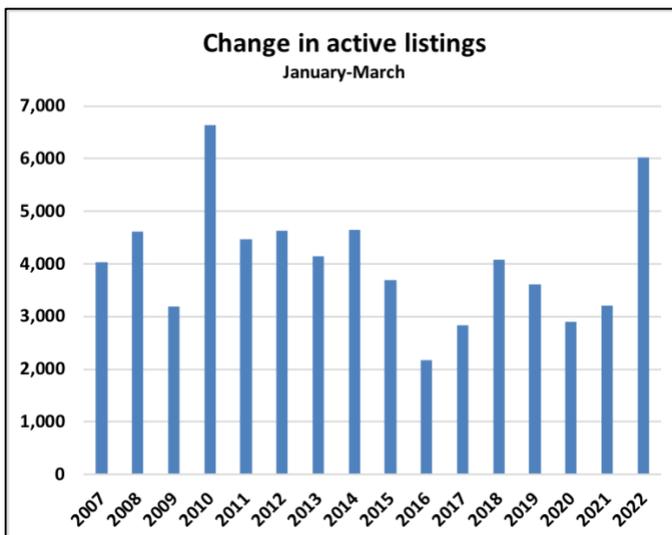
New listings were down 11.8% compared to last year, but that's a bit misleading. March 2021 saw a record new supply hit the market. If we compare this month to the decade average, new listings were ~30% higher than usual.



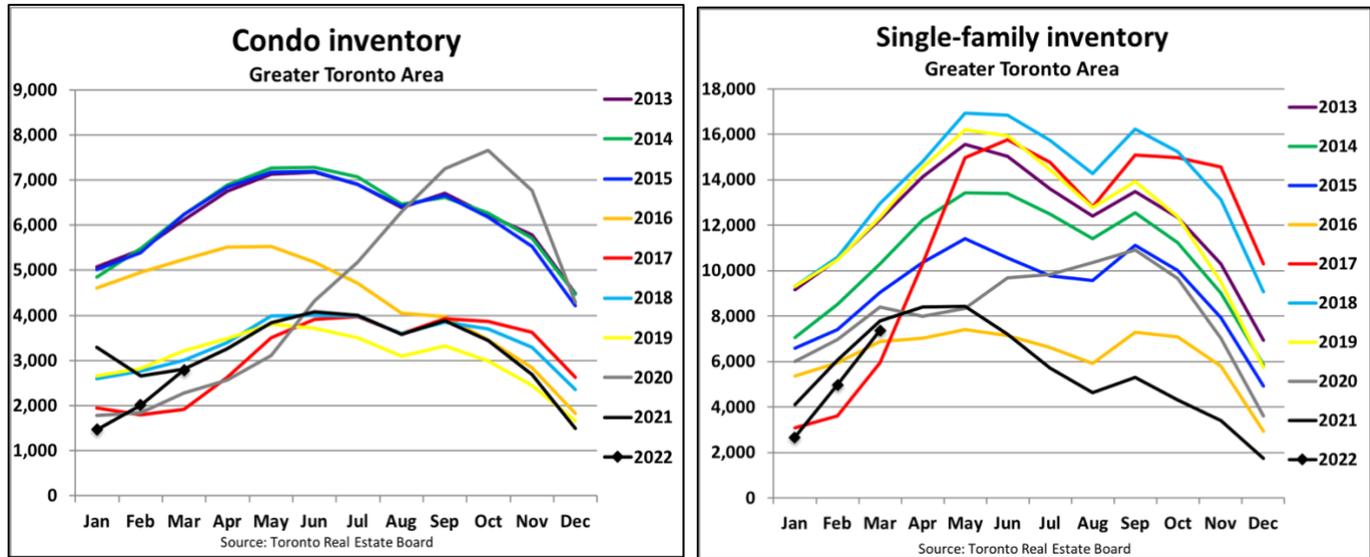
...and that trend may continue through the spring as prospective sellers realize that we've already passed peak pricing. From real estate broker Nasma Ali:



Active listings jumped by 3,200 compared to February and 6,000 since January. That's the largest such increase since 2010, and it represents a record 140% increase in just those two months:



Here too I don't want to overstate things. Inventory is building unusually quickly, but it's off a very low base:

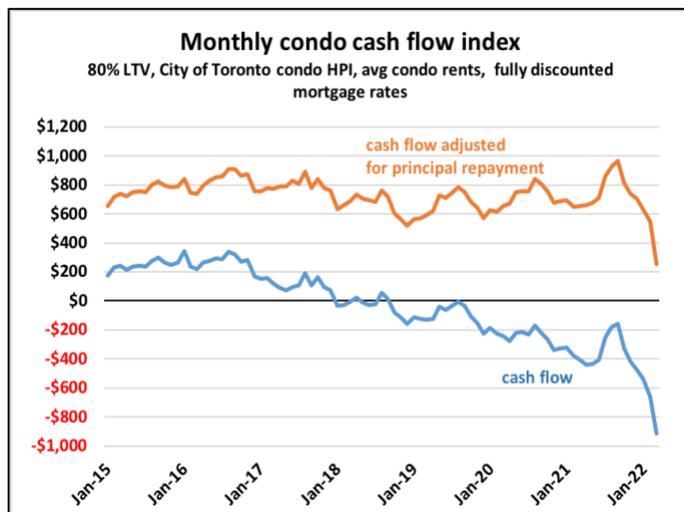


iii) Some early signs of panic among condo owners as rental economics blow out

“Panic” might be a stretch, but new listings in the condo segment set a record for the month, up 4% compared to the prior record in 2021 and up over 30% compared to decade averages.

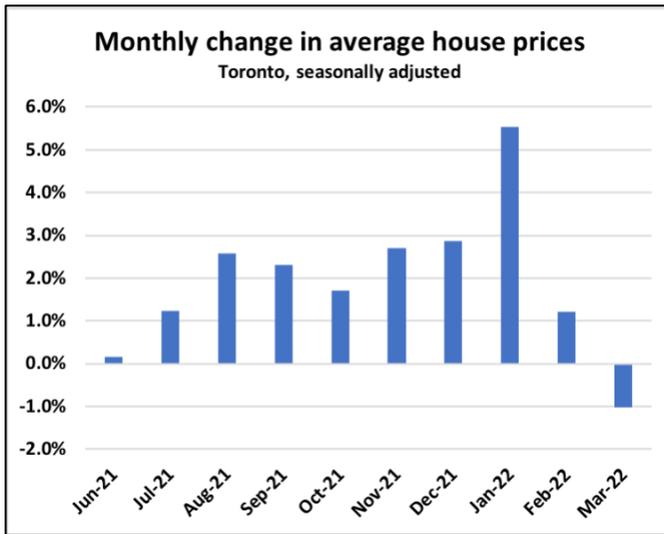
Investors continue to account for a sizable portion of demand, but one has to wonder how long that can last. In late 2021, investors purchasing at prevailing prices saw negative cash flows of roughly \$200 per month. Not fun, but manageable. And with \$1,200 of principal repayment each month, investors were still getting close to \$1,000 of “net wealth creation” even before any capital gains.

Today those same buyers are facing over \$900 of negative monthly carry against principal repayment of just over \$1,100. It's a lot of hassle and a lot of risk to pocket \$200 of net wealth creation each month, and that's assuming these buyers have \$900 a month to feed the fire. It becomes even less appealing when we're looking at the very real prospects of declining values. This may be the single most important dynamic to watch in the condo space.

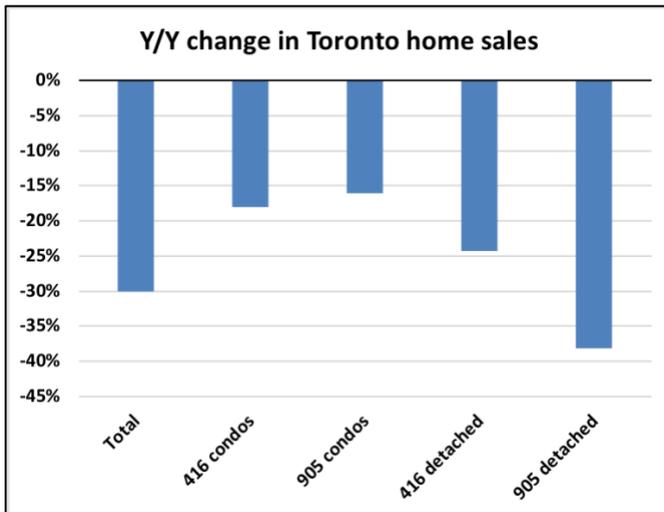


iv) Seasonally adjusted average prices decline

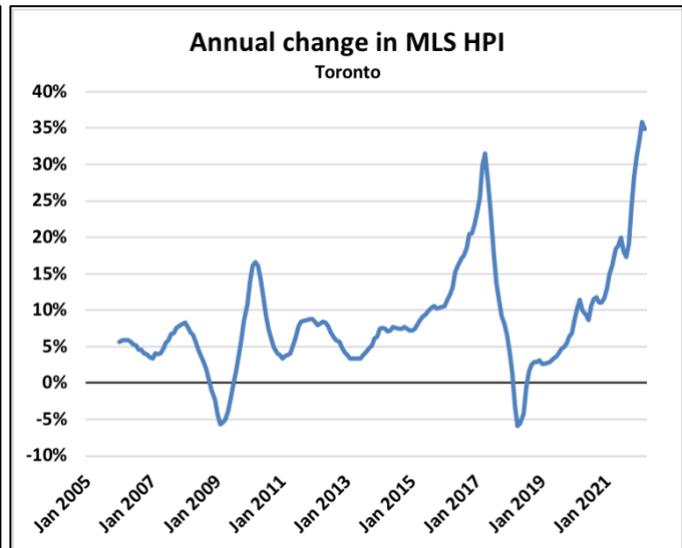
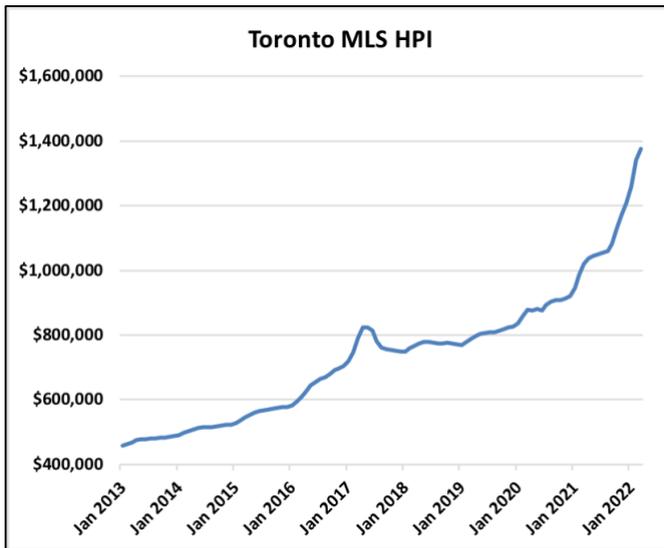
It's hard to get too fired up about monthly moves in average prices due to composition effects, but it's worth at least flagging that seasonally adjusted prices slipped 1% m/m in March.



Chalk this up to a changing sales mix from a steep decline in more expensive detached home sales which fell nearly 40% y/y in the suburbs. This is an important signpost since in every prior cycle, the market has cooled first in the suburbs before spreading to the city:



The more reliable MLS House Price Index is still showing positive, albeit slowing, momentum for now and is still up 35% from last year:



These price indexes do a poor job of capturing sharp inflections. We know from industry contacts that homes selling today are selling for roughly 5% off the February highs, particularly in the suburbs. That will show up in the official numbers in coming months.

v) The return of the motivated seller

The table below is from a Toronto area broker of record who compiled all new listings coming to market with the term “motivated seller” in the property description and looked at comparable weeks in 2022 and 2021. The results are fascinating:

Motivated Sellers' in the GTA	
Week Of	# 'Motivated Sellers'
Feb 28, 2022	7
March 7, 2022	10
March 14, 2022	4
March 21, 2022	32
March 28, 2022	33
Feb 22, 2021	0
March 1, 2021	0
March 8, 2021	0
March 15, 2021	0
March 22, 2021	0
March 29, 2021	0
<i>*'motivated seller' was noted in the listing</i>	

The last time we saw a sharp rise in these sort of “motivated”/distressed sales was 2017.

I apologize that I can't credit the original source. I saw it referenced on Twitter but can't find the original tweet now. If someone knows the source, please hit me up!

vi) Weakening prices are already having ripple effects

Part of the reason for the motivation is because buyers in Toronto always purchase the next home BEFORE selling their existing home, which raises the risk that those who paid peak prices may not be able to close if they were counting on top dollars for their current home.

Now it's suddenly an issue. From one real estate broker:

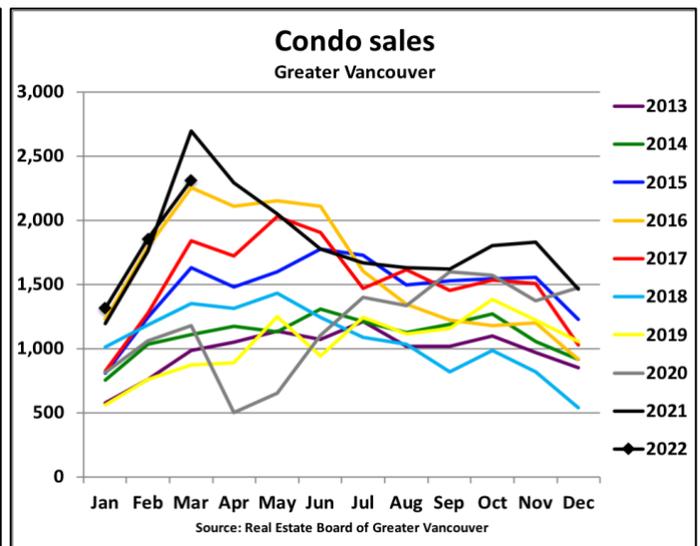
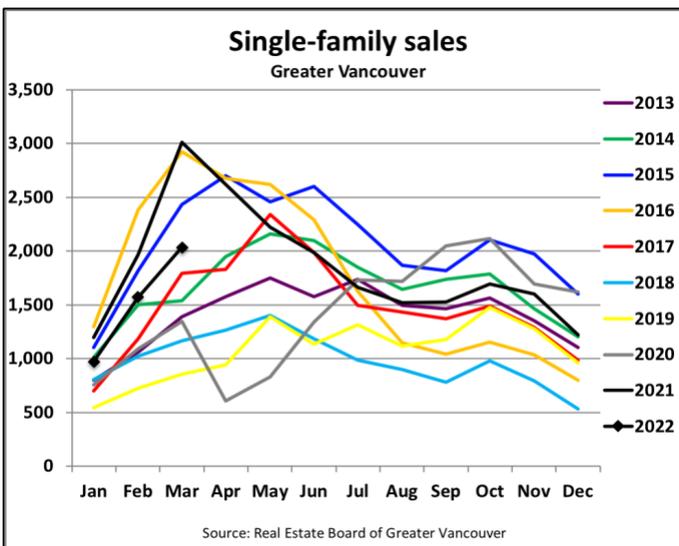


It doesn't take long before these issues surface on Reddit. Expect to hear many more of these stories in coming months and likely some sob stories from Bloomberg or the Toronto Star highlighting this exact dynamic:

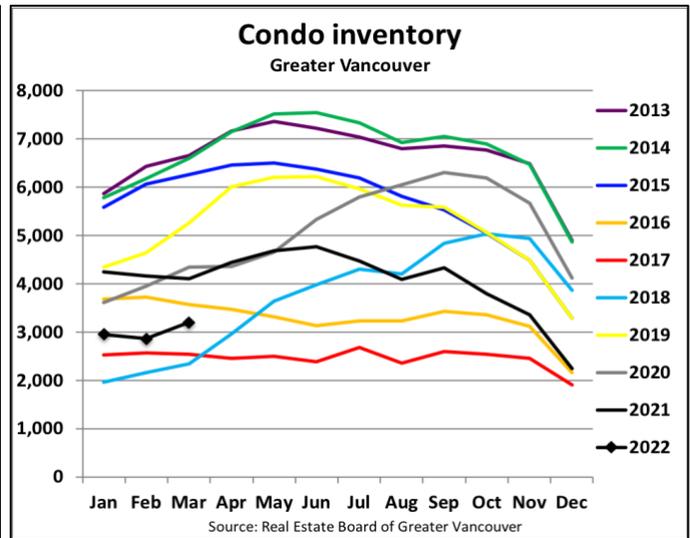
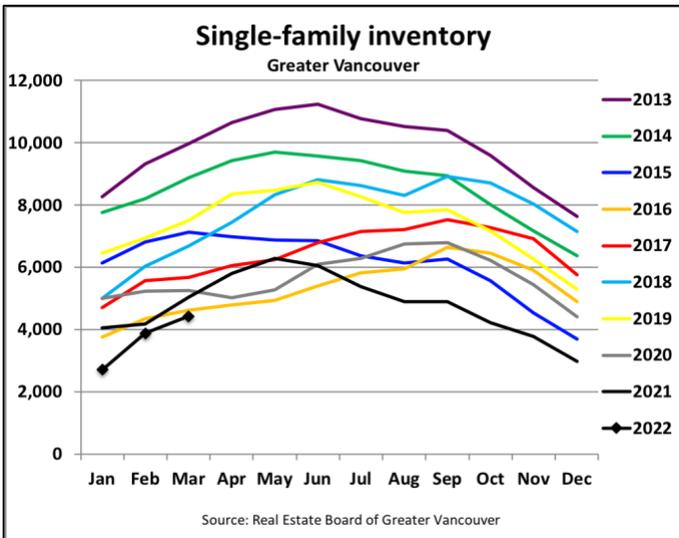


3) Vancouver home sales tumble 24%, but still no increase in supply

Things in Vancouver are a bit less interesting than in Toronto. Sales are lower for sure (-24% y/y overall including a 34% plunge in detached sales), but the supply response is not there yet:



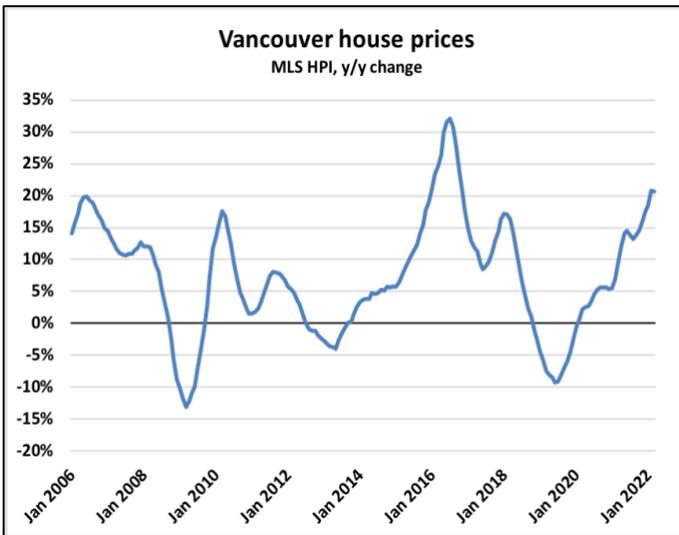
Inventory is increasing overall but remain 16% below 2021 levels, notably in the single-family segment where resale supply remains at +20-year lows.



New listings were down 19.5% y/y but in the condo segment they came in at the second highest level on record for the month:

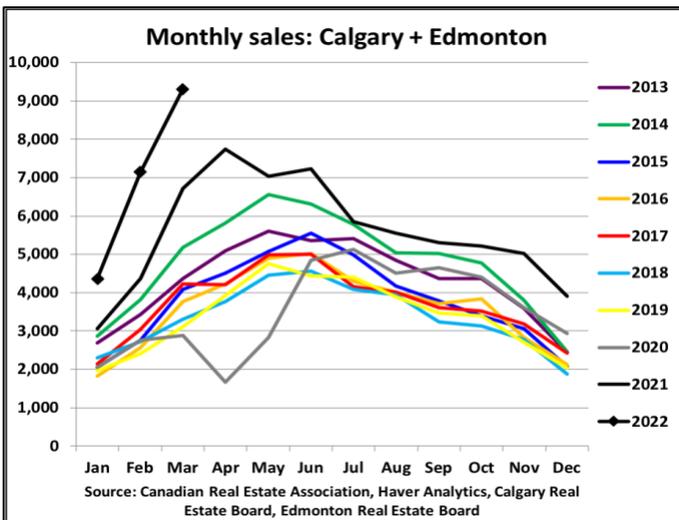


House prices are up 20% compared to last year and show no signs of slowing yet:

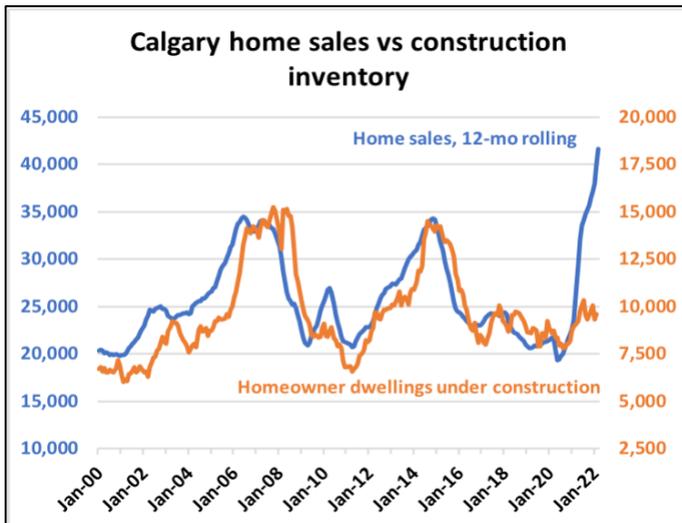


4) Alberta keeps booming as population inflows pick up steam

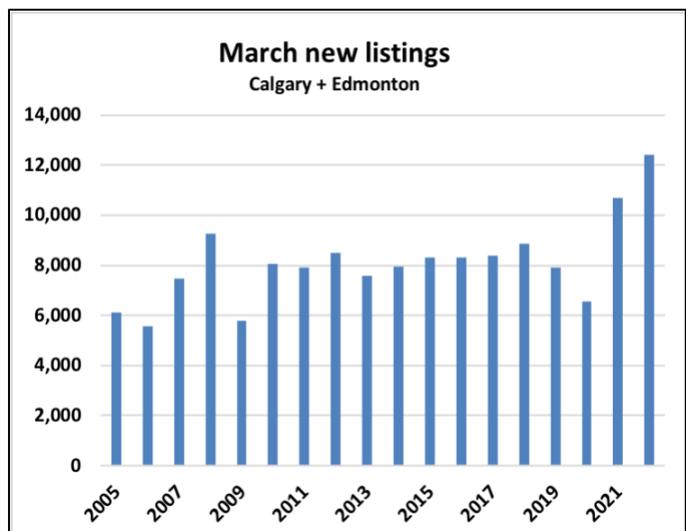
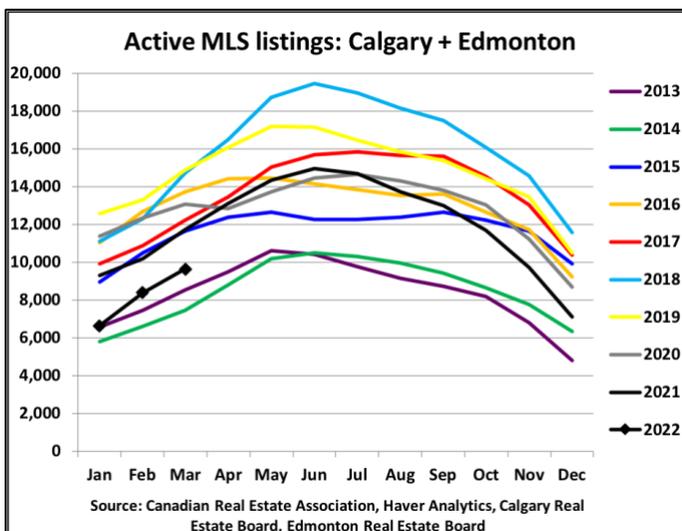
While Toronto is cooling, the opposite is true in Alberta. Sales in Calgary and Edmonton set new highs in March, up 42% y/y and 35% y/y respectively. This chart is wild!



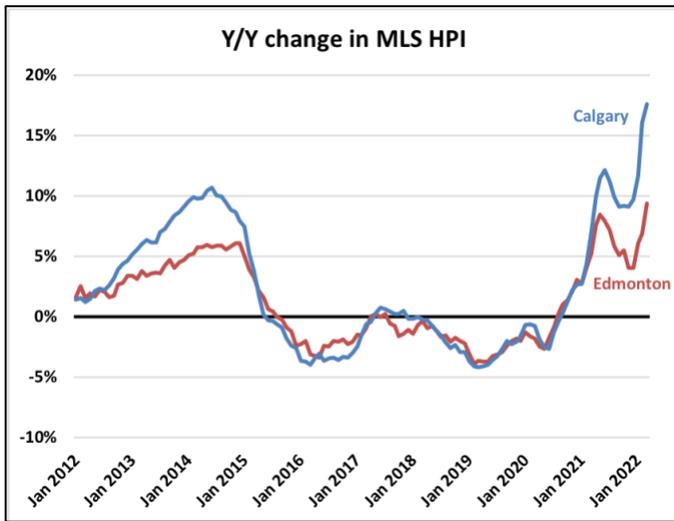
What's interesting is that developers still have not started to respond to much higher demand, which may end up prolonging the current cycle:



Inventory levels are at the lowest since 2014, but new listings coming to market remain quite high.

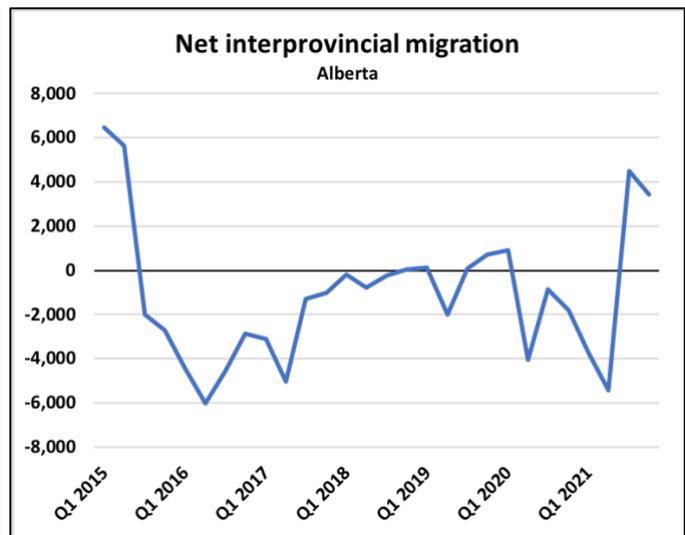
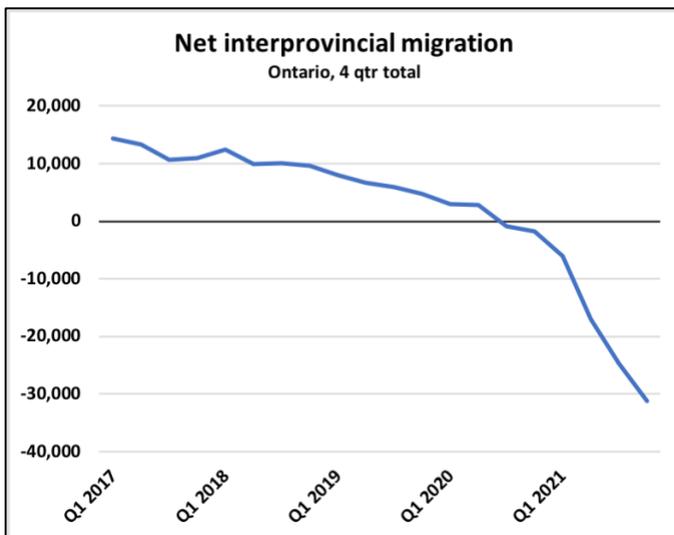


This is helping to keep pricing a little more tame than it might otherwise be, though we are seeing resale values rising at the fastest rate in over a decade:



I still think it's very likely that we'll see Alberta prices outperform the rest of the country over the next few years, particularly as population flows begin to favor cheaper cost of living areas like the prairies and Atlantic Canada.

On that point, Ontario is now seeing the largest net interprovincial outflows on record while Alberta just saw the 2 best quarters of inflows since 2015:



5) Quebec home sales continue to slow off record pace

Home sales in Quebec were down 15% y/y in March, but here too the supply response has been slow in materializing. New listings were down 12% y/y and active inventory was down 15%. Median sale prices were up 21% y/y for single-family homes and up 19% for condos:

