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## **August 2022 Metro level deep-dive- July data**

### **Quick links:**

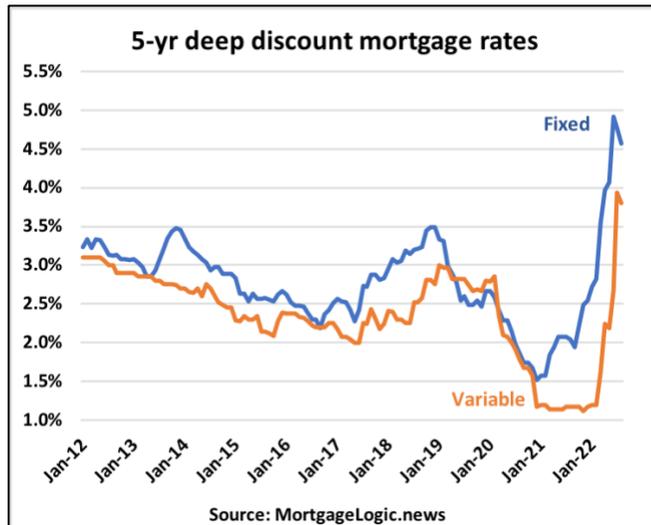
- 1) Finally some relief for potential buyers as rates begin to grind lower**
- 2) Takeaways from Toronto and Vancouver home sales**
- 3) Alberta outperformance continues**

### **Key takeaways:**

- Mortgage rates are finally beginning to stabilize, but that doesn't mean the Bank of Canada is done quite yet. We'll see another increase in variable rates next month, but there's a decent chance that we've already seen the highs for fixed rates unless inflation re-accelerates from here.
- Prices in southern Ontario and BC's Lower Mainland are under pressure, with Toronto registering the sharpest 1-month drop on record last month. Sales in both Toronto and Vancouver came in at 20-year lows in July.
- Alberta is holding together well, and Calgary even saw an INCREASE in sales on a seasonally adjusted basis last month. Prices are starting to soften at the margins, but I still think we're in the early stages of a long stretch of outperformance for markets in that province.

## 1) Finally some relief for potential buyers as rates begin to grind lower

Finally some very modest relief for potential buyers. Both fixed and variable rates have ticked down slightly in the past few weeks:



Fixed rates have not pulled back nearly as much as bond yields have. At least not yet. From Rob McLister's excellent newsletter:

There's a lot at play right now, much more than normal. Factors keeping fixed rates propped up include:

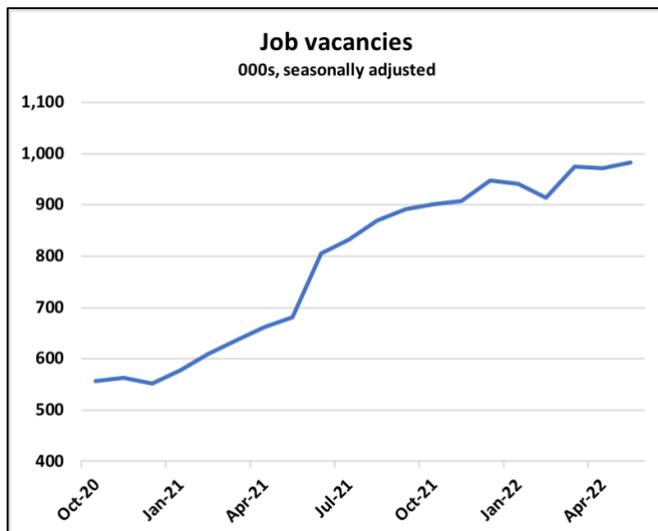
- Higher implied bank risk (That's priced into credit spreads, which impact a portion of bank funding. Banks must bake this into pricing)
- Higher expected loan loss provisions (which banks will have to start funding later in Q3, RBC predicts)
- A shifting preference for higher margins rather than higher market share (in part, to make up tight spreads earlier this year — as rates soared from mid-March to mid-June, many lenders saw their 5-year fixed margins shrink to almost nothing)
- Less funding liquidity
- Higher volatility-driven hedging costs.

Still, there's plenty of downside to fixed rates at these levels, and it wouldn't surprise me to see them come in across the board by 20bps or more over the next couple weeks.

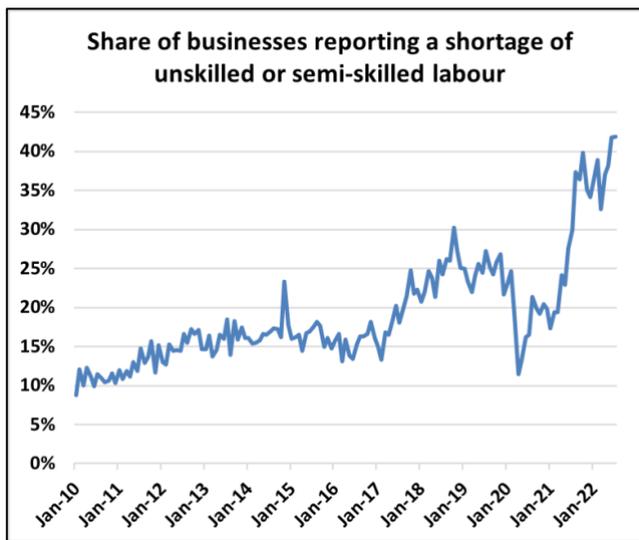
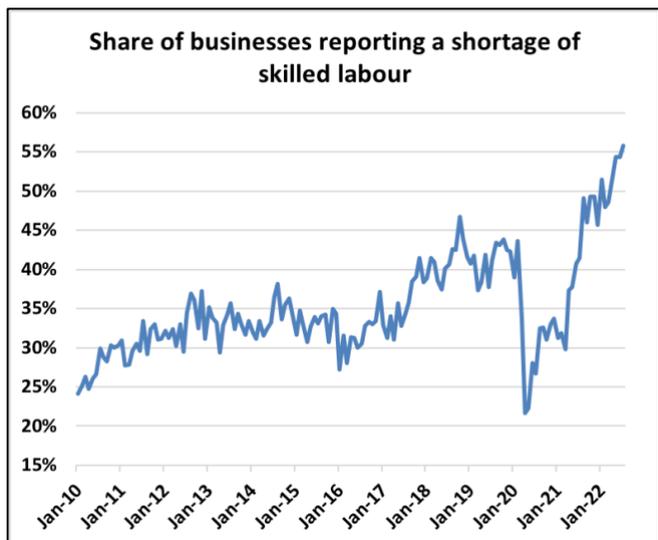
The Bank of Canada still looks set to hike rates in September by 50 or 75bps (0.5% or 0.75%), which means variable rates still have some room to move. But unless the Bank surprises the markets with language to suggest that even MORE rate hikes are needed into 2023, I don't expect that bond yields (and hence fixed mortgage rates) will respond much to the hike. There's a good chance that we've already seen the highs for fixed mortgage rates unless the inflation genie really gets out of the bottle.

While there are signs that inflationary impulses are starting to wane, the Bank's job is clearly not done yet. Last week's Labour Force Survey showed a second straight monthly decline in employment (-31k v +20k exp). But even with that modest decline (almost entirely due to losses among retailers), the unemployment rate remained anchored at the lowest level on record.

We also learned that job vacancies ticked up to nearly a MILLION:



That trend was confirmed in CFIB's latest Business Barometer where a record share of business owners report a shortage of both skilled and unskilled labour in July:



So what does this mean? The economy is still running too hot and it's about to show up in strong wage growth. That sounds like a good thing, and in some ways it is (housing affordability for one), but it's the sort of thing that creates inflationary pressures and complicates the Bank of Canada's efforts to tame rising prices.

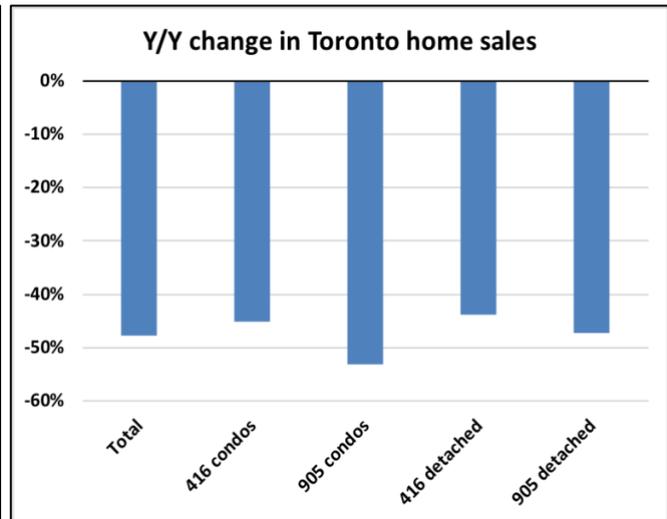
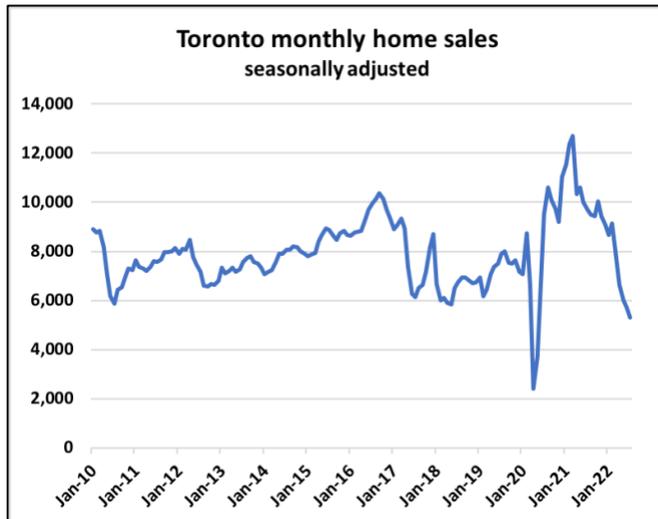
We're getting close to the point where the Bank of Canada is forced back from the current hiking cycle. I wouldn't be surprised if we saw a 50bp hike next month coupled with language suggesting that we're closer to the "neutral rate" than previously expected.

## 2) Takeaways from Toronto and Vancouver home sales

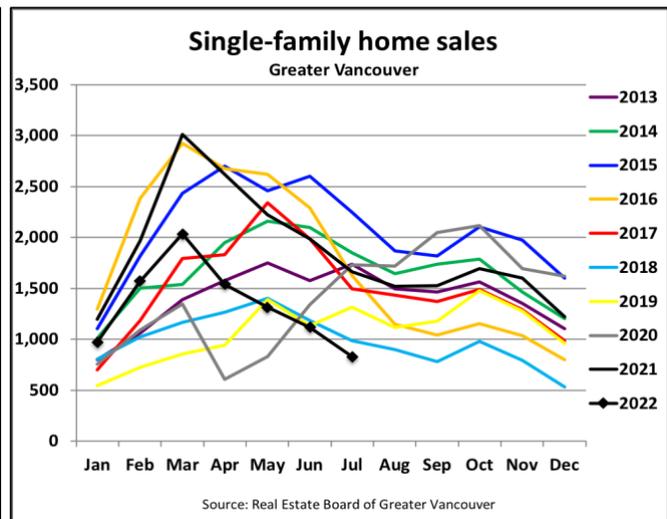
Southern Ontario and BC's Lower Mainland continue to take it on the chin. Housing markets are weak right across these regions with sales levels generally coming in at the lowest since the early 2000s. Some of the takeaways:

### i) Volumes dry up further, sales hit 20-yr lows in Vancouver and Toronto

In Toronto, sales plunged 7.3% m/m seasonally adjusted and were down by 47.4% y/y with steep declines across all segments. It was the slowest July for home sales since 2002.

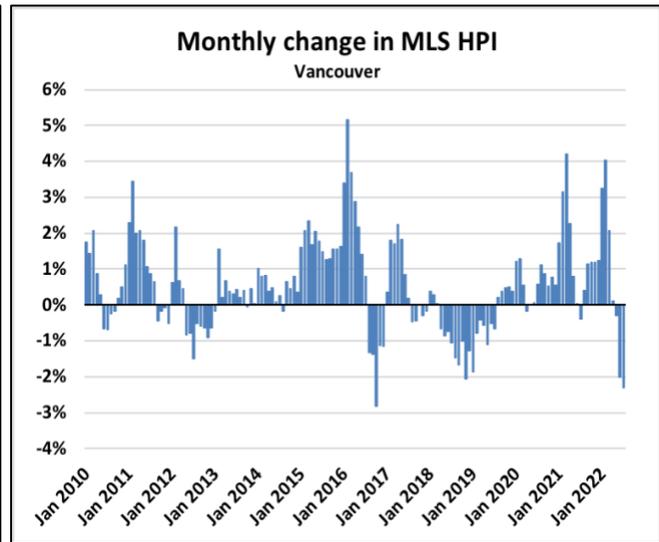
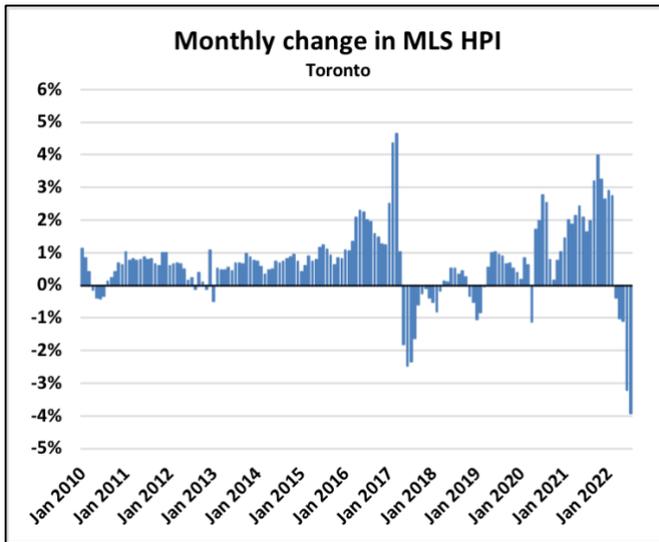


In Vancouver, sales were off an estimated 8% m/m seasonally adjusted and were down 43% compared to last year including a 50% drop in single-family sales. Sales volumes for July have not been this low since the 1990s:

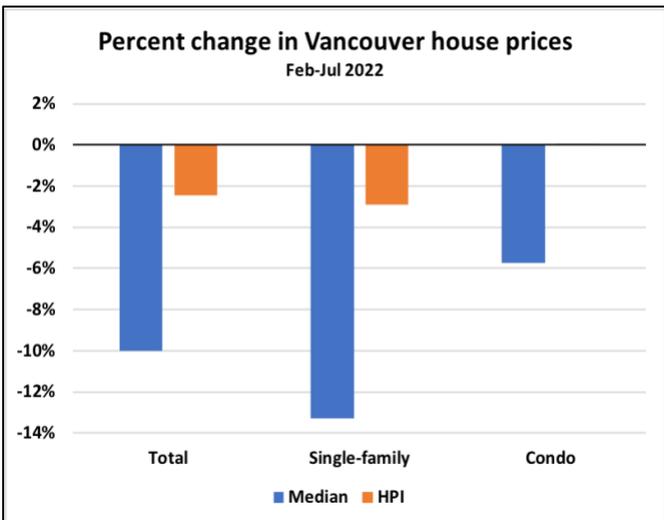
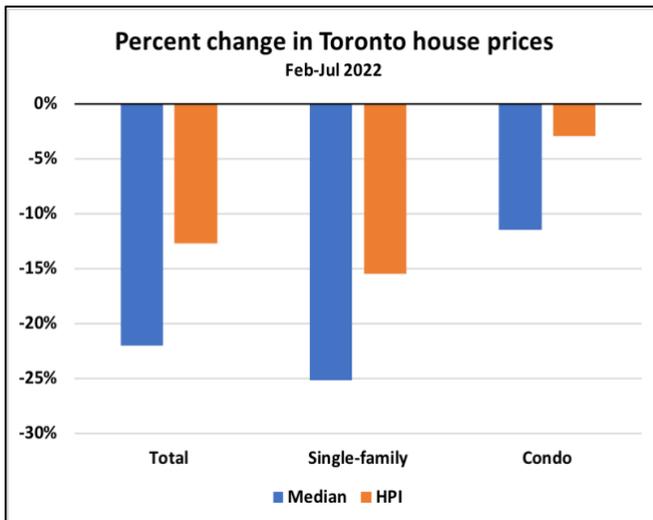


ii) Price declines accelerate

Toronto saw the largest monthly decline in house prices on record last month while in Vancouver it was the largest since 2016:



The MLS HPI is still almost certainly understating the sharpness of the decline. Median prices in Toronto have fallen 22% from the February highs vs -13% for the HPI, while in Vancouver the gap is even wider:



I'm seeing steep declines right across southern Ontario with some same unit sales in the past month coming in 20-30% below prior levels earlier this year:



[View Listing In Full Map](#)

163 Atkinson Boulevard  
London - Argyle  
Single Family Residence

Listed for: \$569,900  
Sold for: **\$535,000**  
Sold 7 days ago

3 Bedrooms

2 Bathrooms

0 Garage

### Listing History

Buy/sell history for 163 Atkinson Boulevard, London (Single Family Residence)

Date Start	Date End	Price	Event	Listing ID
2022-07-09	2022-07-29	\$535,000	Sold	40293344
2022-04-18	2022-04-26	\$725,000	Sold	<a href="#">40243438</a>



[View Listing In Full Map](#)

83 Walker Road  
Ingersoll  
Single Family Residence

Listed for: \$1,095,000 \$995,000  
Sold for: **\$925,000**  
Sold 9 days ago

4+2 Bedrooms

4 Bathrooms

2 Garage

### Listing History

Buy/sell history for 83 Walker Road, Ingersoll (Single Family Residence)

Date Start	Date End	Price	Event	Listing ID
2022-07-04	2022-07-27	\$925,000	Sold	40286842
2022-01-28	2022-02-02	\$1,280,000	Sold	<a href="#">40203772</a>



[View Listing In Full Map](#)

1241 King Street E  
Cambridge - Preston Centre  
Row/Townhouse

Listed for: \$600,000 \$650,000  
Sold for: **\$640,000**  
Sold 16 days ago

3 Bedrooms

3 Bathrooms

1 Garage

### Listing History

Buy/sell history for 1241 King Street E, Cambridge (Row/Townhouse)

Date Start	Date End	Price	Event	Listing ID
2022-07-16	2022-07-20	\$640,000	Sold	40296054
2022-02-14	2022-02-20	\$907,100	Sold	<a href="#">40202937</a>



[View Listing In Full Map](#)

11 Richvale Dr S  
Brampton - Heart Lake  
Detached

Listed for: \$999,999  
Sold for: **\$999,000**  
Sold 17 days ago

3+1 Bedrooms

4 Bathrooms

1.5 Garage

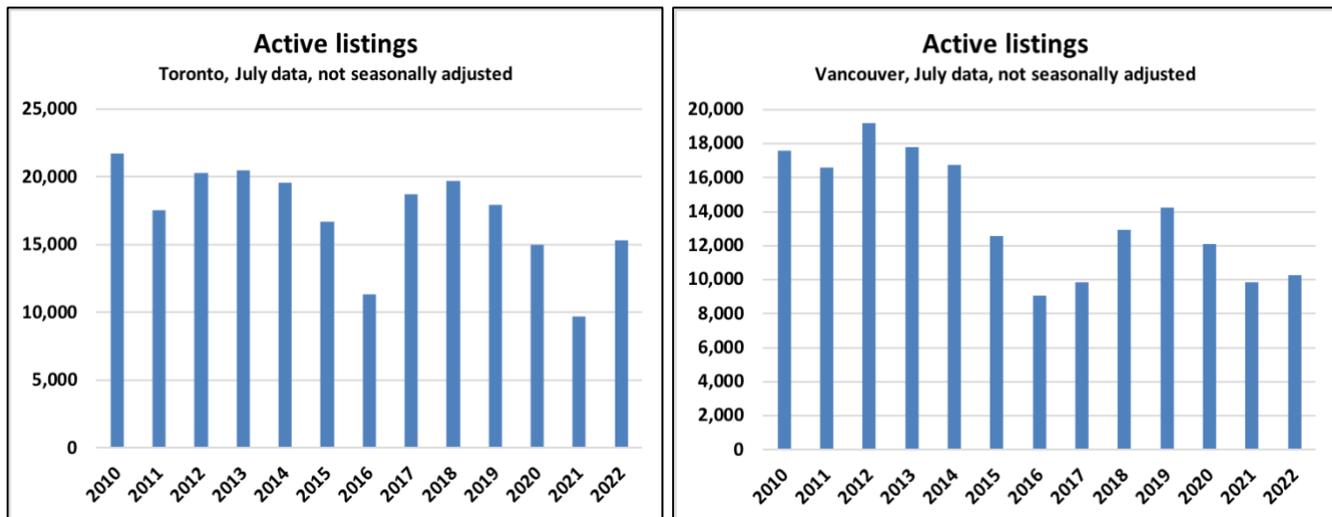
### Listing History

Buy/sell history for 11 Richvale Dr S, Brampton (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-07-16	2022-07-19	\$999,000	Sold	W5701016
2022-06-24	2022-07-15	\$1,124,999	Terminated	<a href="#">W5674427</a>
2022-02-15	2022-02-21	\$1,425,000	Sold	<a href="#">W5507435</a>
2017-03-08	2017-03-13	\$680,000	Sold	<a href="#">W3723812</a>

### iii) Sellers holding out

Resale inventory continues to build quickly but is still not at alarming levels overall. The imbalance for now is primarily on the demand side. Active listings were up 58% y/y in Toronto and up just 5% y/y in Vancouver in July:



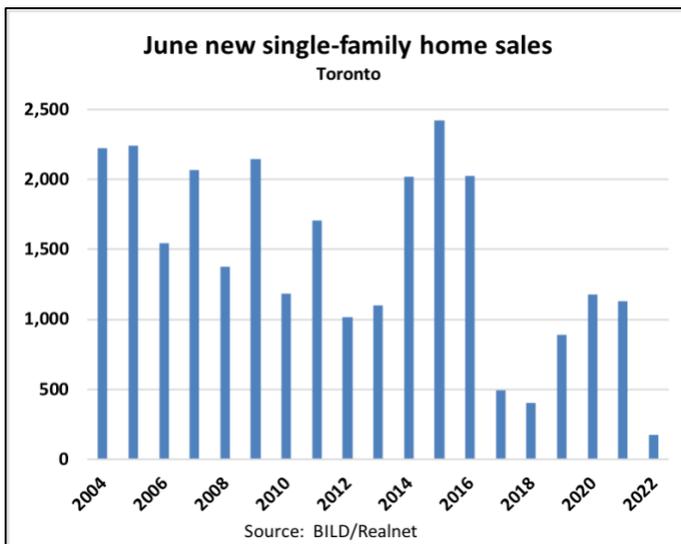
One important dynamic to note is the flow of NEW listings slowed significantly in July, coming in at the lowest since 2010 in Toronto and the lowest in the past 20 years in Vancouver.

We're at the point in the cycle where sellers who don't HAVE to sell are pulling their listings and hoping for better market conditions down the road. Many will re-list in the fall when markets generally see an uptick following the summer doldrums.

The big question now is whether we'll see a longer tail of more distressed selling as a function of rising rates. The answer so far has been no, but we're still in early days. As I've stated since the market rolled over in February, the big indicator to watch now will be the trend in new and active listings come August and September once things stabilize from the initial bout of distressed selling that always follows an abrupt shift in the market.

### iv) New home sales tank

The industry group representing the construction industry in Toronto reported a dramatic decline in new homes sold in June. Overall sales were down 56% y/y but what really stood out was the 85% plunge in the single-family segment to just 175 home sold. Contacts tell me that this was the lowest monthly reading in 40 years.



Unsold developer inventory has risen from 550 units in Feb to over 1,900 units as of June.

**v) Investors “heading for the exits”?**

An interesting article here from Bloomberg<sup>1</sup>:

**Housing investors are heading for the exits as rates rise**

[...] “It’s starting now,” (Ron) Butler said. “Every quarter there’s more bad news. More renewals. More negative cash flow. More, ‘Does it make sense to hold onto this rental?’”

As long as rates stay high, he predicts investors will turn into a steady stream of forced sellers and further weigh down home prices. “The economics of this thing for the next two years just don’t make sense,” Butler said.

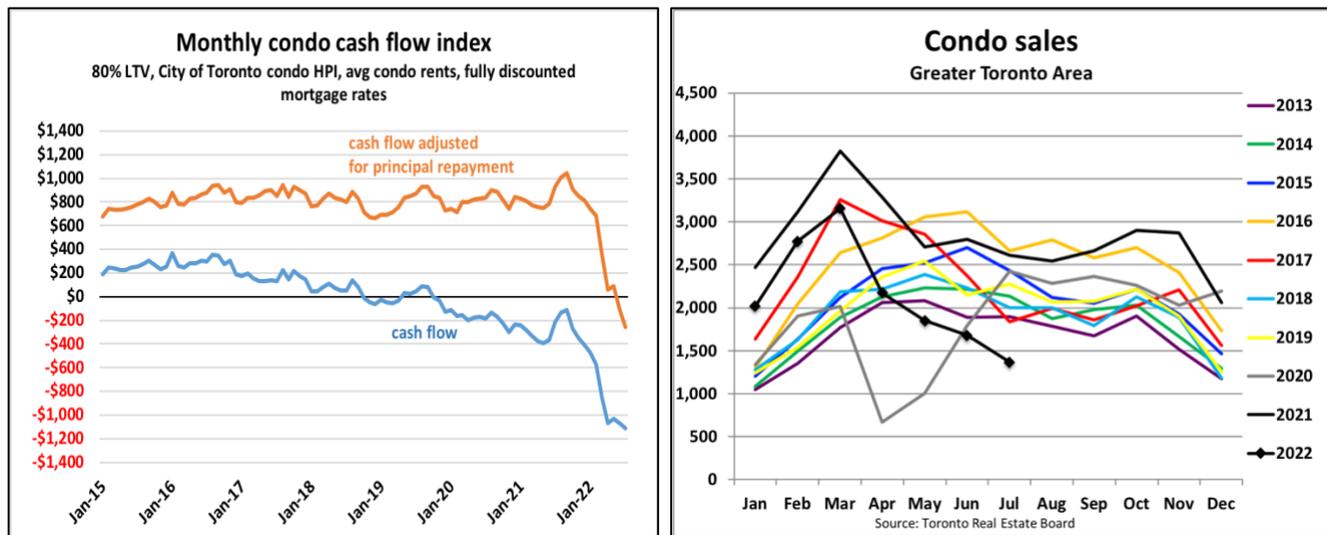
[...] Steve Saretsky, a real estate broker in Vancouver, said he’s now getting calls from investors who have seen their monthly losses go from \$200 to \$400 (US\$155 to US\$310) because of increased payments on their variable-rate debt. He says they won’t be able to bear that kind of negative cash flow much longer, particularly with prices falling.

Consider the real-world example below from one twitter user....an \$830 or 30% increase since March alone:

<p> <b>ac_eco</b> @ac_eco</p> <p>On March 1st my investment property mortgage payment was \$2694.10</p> <p>Today my mortgage payment is \$3147.61</p> <p>A \$453/month or 16% increase in just 4 months</p> <p>I’m still positive cash flow thankfully cause started out with 5% cap rate but I’m sure lots of ppl are feeling it now.</p>	<p> <b>ac_eco</b> @ac_eco</p> <p>My mortgage payment on my investment property has now jumped up to \$3534.</p> <p>A &gt; \$830/month or 30% rise in my payment since March.</p> <p>Still cash flow positive but how many feeling the heat now or when they renew?</p>
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<sup>1</sup> <https://www.bnnbloomberg.ca/housing-investors-are-heading-for-the-exits-as-rates-rise-1.1796593>

Meanwhile the economics on new purchases continues to deteriorate. By my math, a new investor purchasing a resale condo in Toronto today is facing a \$1,200 negative cash flow which is still negative by nearly \$300 even when principal repayment is included. It should be no surprise then that condo demand is getting hit particularly hard:



This remains a concern given the record number of units under construction...many of which need to be assigned prior to closing. The assignment market has traditionally been dominated by investors, but it is “now illiquid”, according to the Globe and Mail<sup>2</sup>:

[...] Today credit has tightened, extensions are rife and defaults are rising, says the principal with LegalClosing.ca. The process of buying and selling was “very clean” when there was an abundance of money flowing through the system, Mr. Morris explains, but now that stream has slowed to a trickle.

Some buyers appeal to sellers for more time to come up with the financing they need to close a deal, and defaults are also rising, says the lawyer, who has 15 to 20 problem files on his desk on a given day.

Purchasers planning to rely on a home equity line of credit, or HELOC, to buy an additional property are finding that avenue closed.

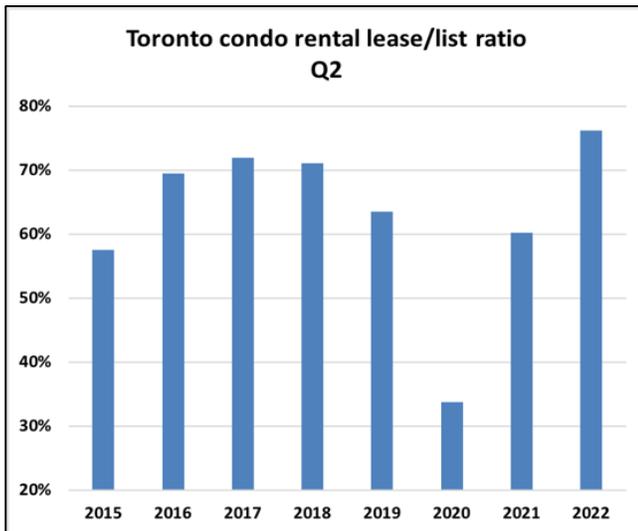
Mr. Morris is carefully watching the new build segment, where he sees peril ahead. He points to the many people who signed a contract with a builder before construction on a new project began. A number of those buyers count on being able to sell the contract to another party without ever taking possession of the property. When prices were rising rapidly, speculators often made hefty profits on so-called assignment sales.

He sees complications on the horizon because many of those original buyers cannot afford to finalize the purchase when the unit is finished – especially in today’s economy.

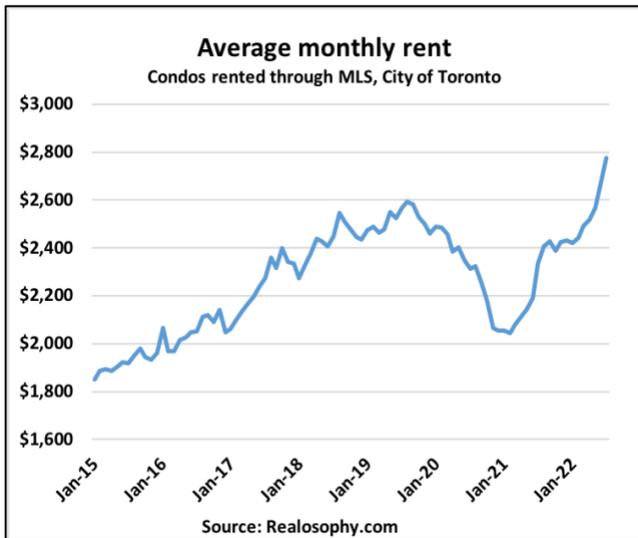
“That market is now illiquid,” Mr. Morris says. “Buyers will find they cannot assign the product away if they can’t afford it.”

One thing helping landlords for now is the strength of the rental market overall. Rentals are hot right across the country right now, but nowhere more so than Toronto. The lease/list ratio for condos (a crude measure of supply and demand where higher = a stronger market) came in at the highest on record in Q2. This makes sense. You can’t have record population growth and a very weak resale market without a strong rental market. People have to live somewhere:

<sup>2</sup> <https://www.theglobeandmail.com/real-estate/toronto/article-real-estate-market-storm-clouds-are-gathering/>

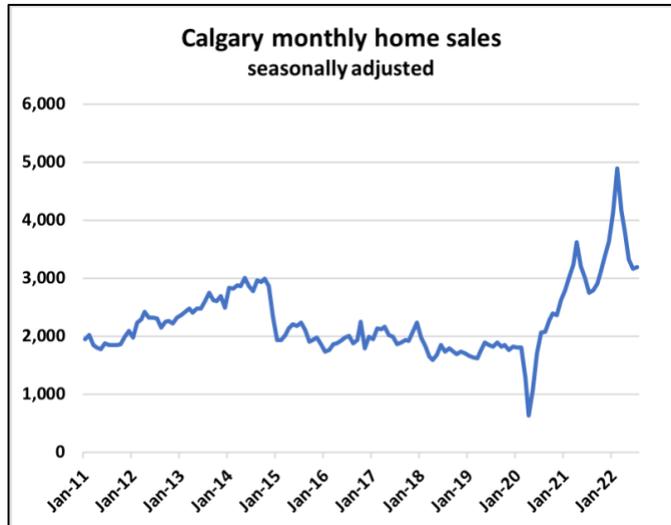
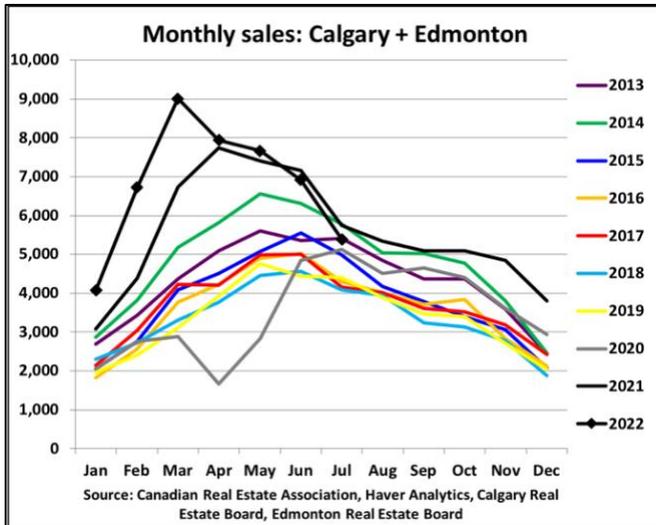


Not surprisingly, rental prices were up 22% compared to last year and have now returned to pre-pandemic trend. In other words, when tenants do move, landlords are getting very healthy bumps in rental prices.

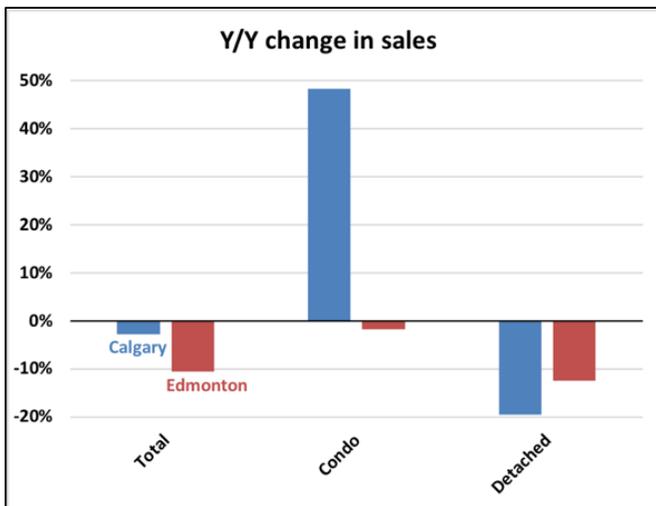


### 3) Alberta outperformance continues

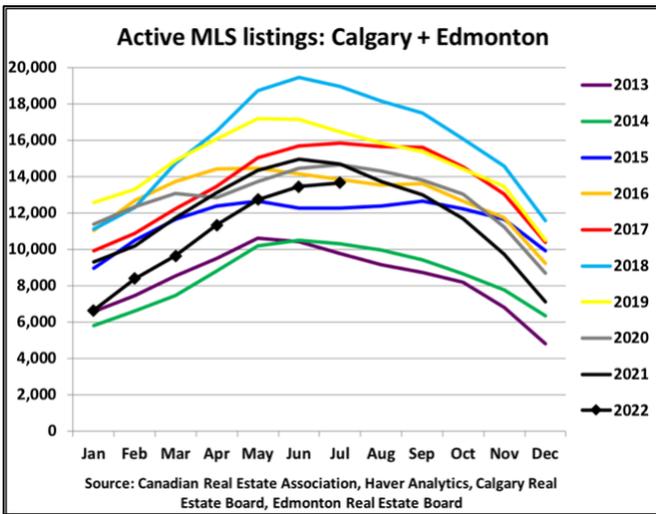
Housing demand is holding up remarkably well in Alberta, and I continue to think that we're in the early days of outperformance relative to BC and Ontario. Yes, sales in Calgary and Edmonton were down slightly compared to last year (-5%) but remain well above normal levels over the past decade and actually ticked up m/m on a seasonally adjusted basis in Calgary:



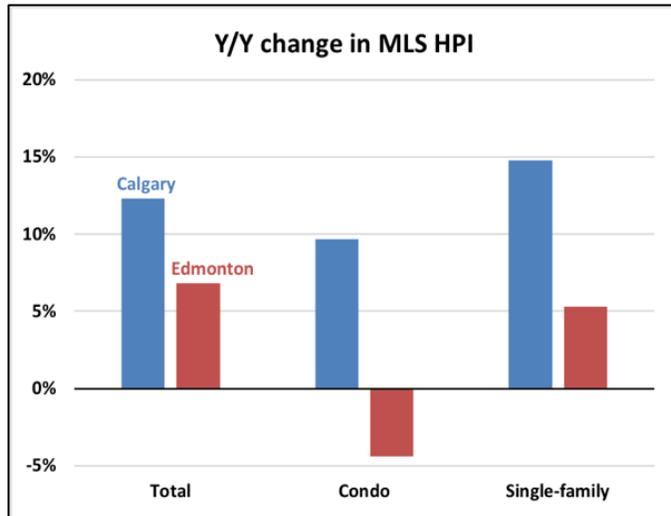
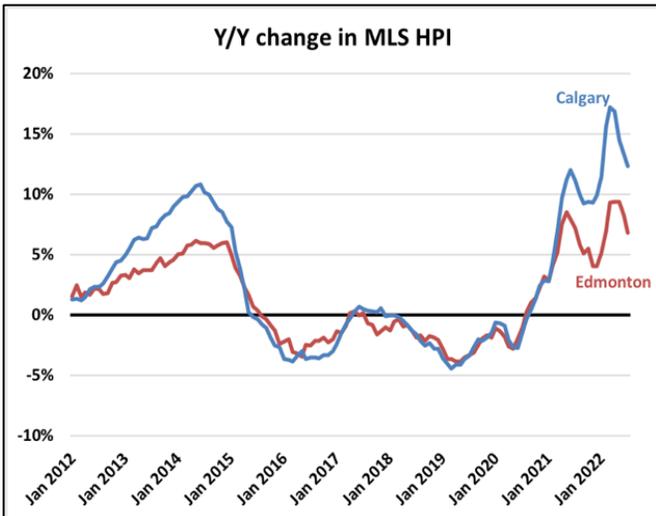
If there's one thing that bears watching, it's the massive increase in condo sales in Calgary...almost certainly reflecting rising demand from investors in Ontario and BC. This is not a healthy dynamic, but condos represent less than a quarter of all transactions across the metro region, so a slowdown in this segment shouldn't move the needle too much.



Active listings are still well below normal levels, notably in Calgary (-20.1% y/y):



House prices are starting to soften a touch with MLS HPI benchmark prices down on the month in Calgary (-0.3%) and Edmonton (-1.3%), but both remain significantly higher than last year at this time:



Regards,  
Ben