



February 2024
Metro deep-dive: January data

Quick links:

- 1) **Macro commentary: Markets now pricing in 3 cuts in 2024**
- 2) **Toronto home sales jump on rising confidence**
- 3) **Vancouver: Strong start to 2024**
- 4) **Calgary home sales surge**

1) Macro commentary: Rate projection update

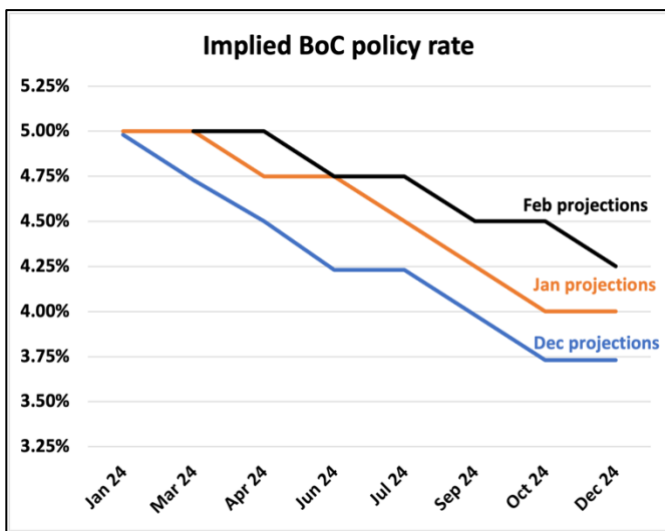
i) Markets now expecting only 3 cuts in 2024

Rewind to December. We just had a very disappointing Q3 GDP report that showed the largest contraction since COVID-related lockdowns, and there were real concerns that the Canadian economy was rapidly losing altitude and heading for a hard landing.

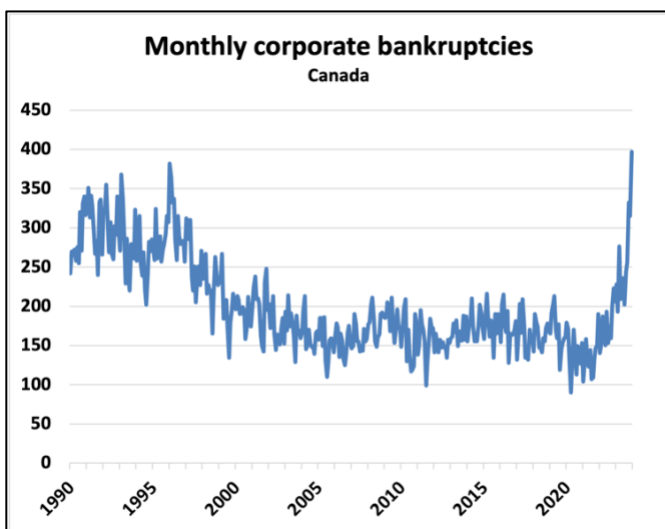
Back then, markets were expecting 5 rate cuts in 2024 for a cumulative 1.25%, with the first cut in March.

Since then, we've seen a string of surprisingly strong economic data both here and in the US. On top of that, the most recent Canadian CPI reading showed core inflation bouncing higher, while in the US, today's inflation reading was downright spicy.

Roll it all together and it means markets are repricing rate cut expectations for this year. The latest estimates now has the first hike in June, with two additional hikes by year end for a total of 0.75% of cuts. Bear in mind, these are moving targets that can change on a dime.



I've been firmly in the "higher for longer" camp, but even at that, I think it's likely that we'll see more than 3 cuts this year. I believe the market is underappreciating the lagged impact of high rates on the Canadian economy. Consider, as just one example, the remarkable trend in corporate bankruptcies:



Rates are clearly hurting businesses in a big way, and I believe it's only a matter of time before that shows up in job losses.

The reason it hasn't so far is two-fold:

- i. Business margins are still quite high, so there was some room for them to absorb higher costs without having to shed positions.
- ii. The labour market has been so darn tight for years now that businesses are very hesitant to shed workers when they were so hard to find in the first place.

But that's changing. Consider the news last week that Bell Canada will cutting its work force by 9%:

BCE cutting work force by 9% in biggest restructuring effort in almost 30 years

ALEXANDRA POSADZKI > TELECOM REPORTER
PUBLISHED FEBRUARY 8, 2024

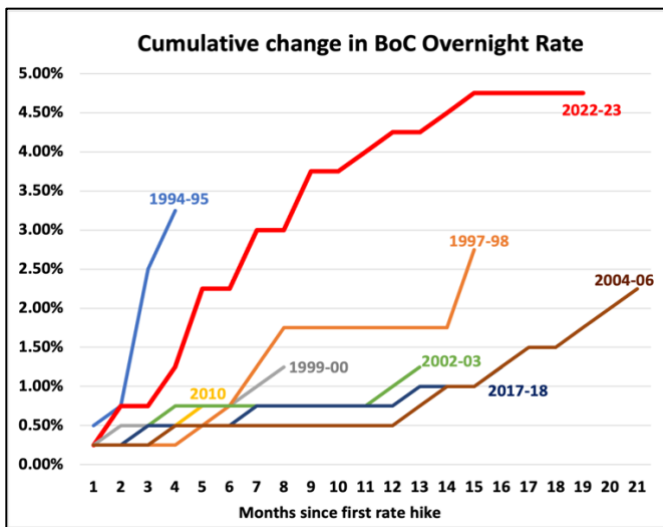
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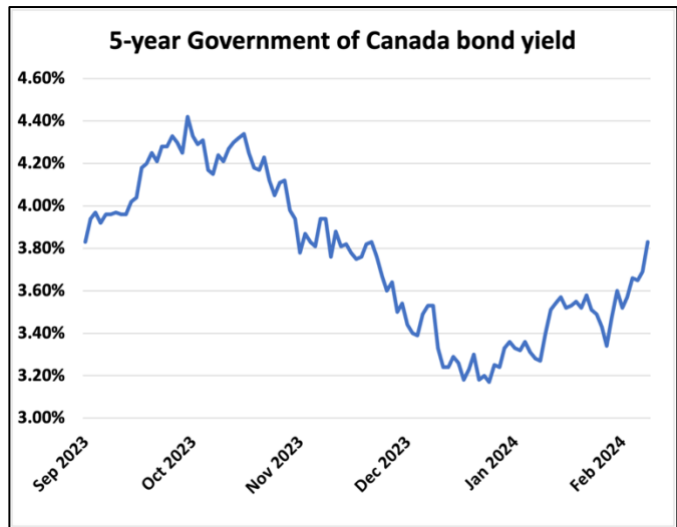
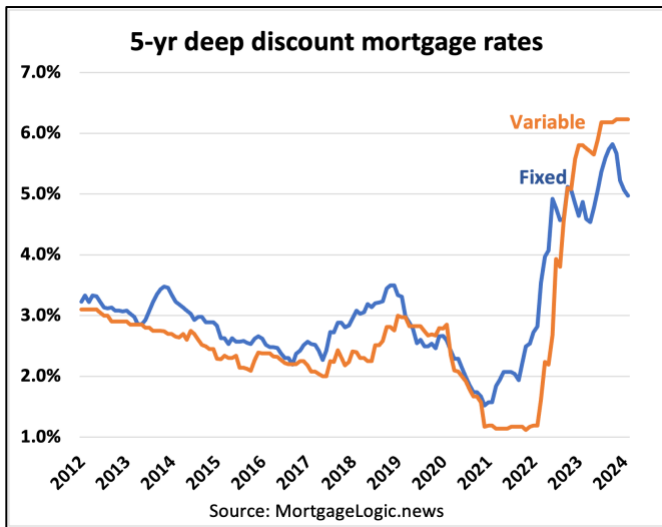
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BCE Inc. [BCE-T](#) -1.10% ▼ is reducing its work force by 4,800 positions, its largest restructuring initiative in nearly 30 years, blaming a difficult economy and a regulatory requirement to open its network to competitors.

This rate hike cycle is long in the tooth, and I'm still expecting 5 rate cuts this year, back loaded toward the second half of the year once it's abundantly obvious that the pain in the business sector is rippling through the economy.

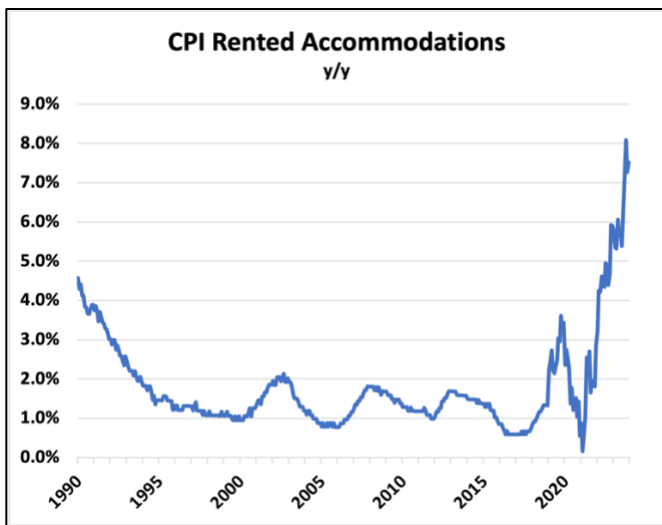


As for mortgage rates, saw deep discounted fixed rates break below 5% for the first time since May 2023. For insured deals, we even have widely-available 5-yr fixed rates at 4.69%. That's the good news, but unfortunately it may not last. The bellwether 5-year bond yield has ripped 0.65% higher to start the year, so we should expect a floor under fixed rates for the time being at a minimum, and I think it's more likely that we see some upward drift of 10-20bps on fixed rates in coming weeks:

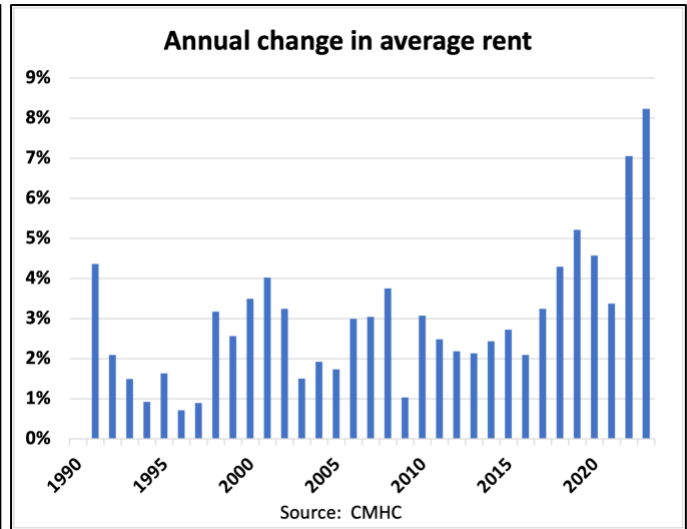
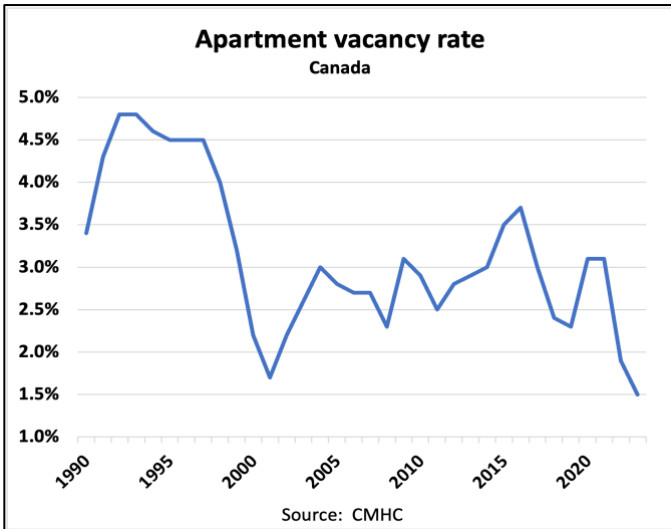


ii) Cooling rental market will push CPI lower

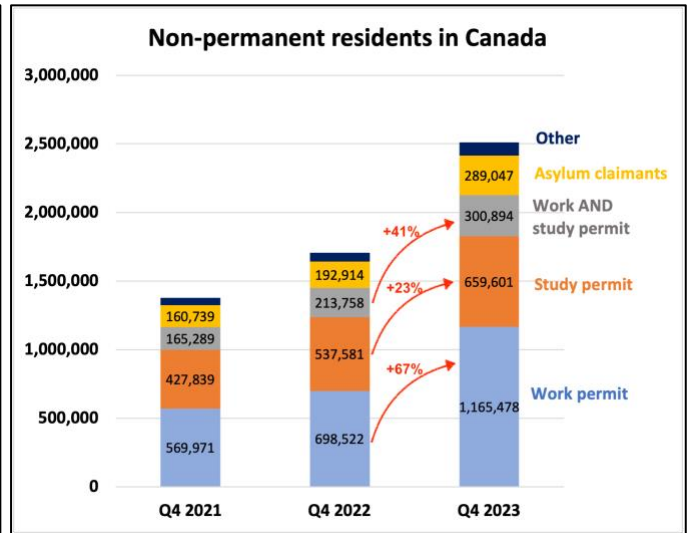
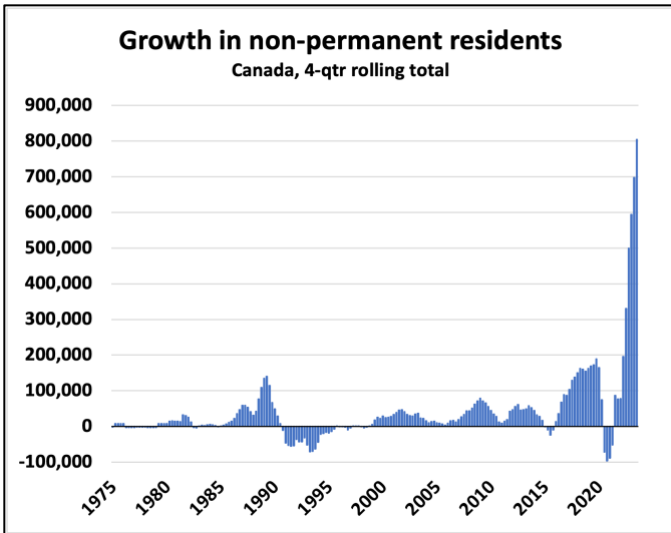
In addition to a broad cooling in the economy, I also think the rental market will begin to normalize later this year, which will take a lot of steam out of inflation. The CPI Rented Accommodations Index is currently running at the hottest clip in 40 years, and this one component alone is currently adding 0.6% to headline inflation.



Along these lines, CMHC data this week showed a record low for rental apartment vacancy rates and a record high in rent growth nationally in 2023:



That's hardly a surprise given that a record 800,000 temporary residents- almost all of them renters- were added to the population in the past year.



But we know this cohort has finally drawn the gaze of the feds who are now keen to tighten up. To wit:

Immigration Minister to ‘rein in’ number of temporary foreign workers coming into Canada in 2024

MARIE WOOLF >
OTTAWA
PUBLISHED DECEMBER 22, 2023
UPDATED DECEMBER 24, 2023



Immigration Minister Marc Miller delivers remarks at a press conference in Ottawa, on Dec. 21.
SPENCER COLBY/THE CANADIAN PRESS

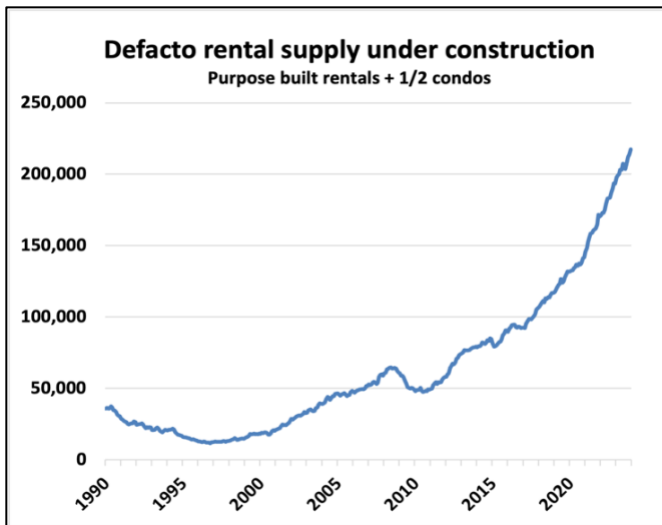
Ottawa announces two-year cap on international student visas

MARIEKE WALSH > SENIOR POLITICAL REPORTER
MARIE WOOLF >
MONTREAL
PUBLISHED JANUARY 22, 2024
UPDATED JANUARY 23, 2024



Minister of Immigration, Refugees and Citizenship Marc Miller arrives for the federal cabinet retreat in Montreal on Jan. 22.
CHRISTINNE MUSCHI/THE CANADIAN PRESS

Now consider that we have 200,000 rental units in the construction pipeline (a record 135,000 purpose-built rentals and 165,000 condos- of which half will enter the rental pool at completion), which will begin to come online in size later this year, just as these new regulations around non-permanent residents curb growth in a key renter demographic:



Given all that, I expect we'll see a normalization in the rental market this year. Not a weak market by any means, but one where rents grow in-line with inflation instead of 2-3x.

Already we're seeing it in the condo market in Toronto where the lease/list ratio- a measure of supply and demand- fell to the second lowest level of the past decade in Q4. New listings surged a whopping 46% y/y:



The culprit is an acceleration in new completions which are adding considerable inventory into the market. From the Globe and Mail¹:

Weak condo market in downtown Toronto leads to dip in rental rates, increased vacancy

In a country where rental affordability and vacancy rates got worse throughout 2023, how did rents fall and vacancy rates go up in the most expensive parts of downtown Toronto?

“Trust me when I tell you I’ve never experienced vacant units,” said Sundeep Bahl, a Toronto realtor with Re/Max Plus City Team, who specializes in buying and selling investor-owned condominiums and also provides his own property management services.

“We get a 60 days notice [from a tenant vacating] and we’ve expired the 60 days. The unit’s now become vacant and we can’t find a tenant for the landlord.”

[...] the number of new condos delivered in the final quarter of 2023 hit 7,408 units, up 26 per cent from the previous year. And the projection for the first quarter of 2024 looks to be about the same, or larger.

According to Mr. Bahl, that means there are at least 3,600 condo apartments up for rent in the two most dense downtown districts (known as C01 and C08 by local realtors) and close to 60 per cent of them are sitting vacant.

“They’re cannibalizing each other,” said Pauline Lierman, vice-president of market research with Zonda Urban. “It’s not the first time we’ve had cannibalization in certain neighbourhood pockets. But at that scale, it really makes a difference.”

[...] “They are so used to just a single-occupant, triple-A qualified tenants who make \$90,000-\$100,000,” said Mr. Bahl of his investors, who he said are losing patience with his inability to even schedule showings. “It’s really a struggle finding somebody qualified at this point.”

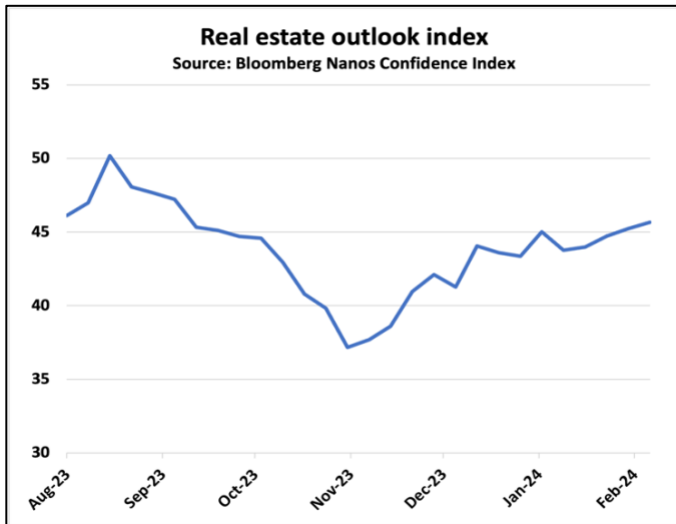
When that market begins to normalize, it will remove a major source of inflationary pressure and give the Bank of Canada more room to cut later this year.

¹ <https://www.theglobeandmail.com/real-estate/article-weak-condo-market-in-downtown-toronto-leads-to-dip-in-rental-rates/>

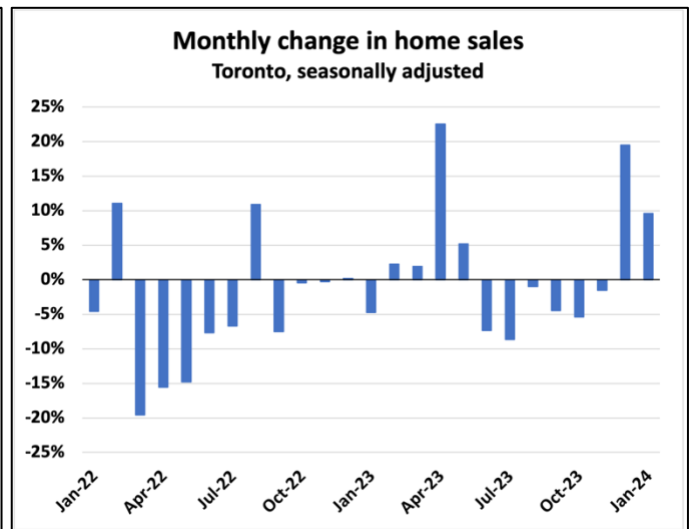
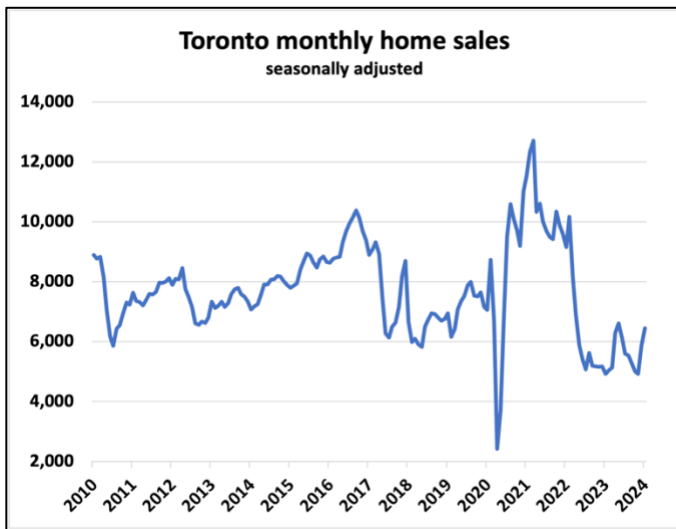
2) A repeat of 2023? Toronto home jump again in January

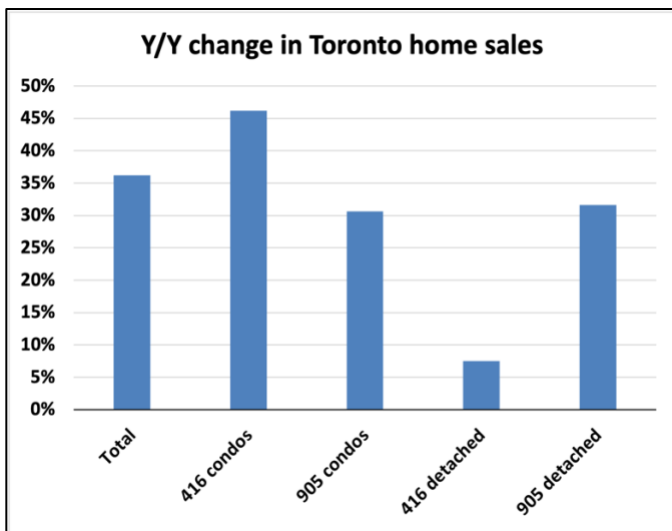
Improving sentiment drives housing activity

Housing sentiment continues to improve across the country. This week the Bloomberg Nanos Real Estate Outlook Index registering the highest reading since last summer:

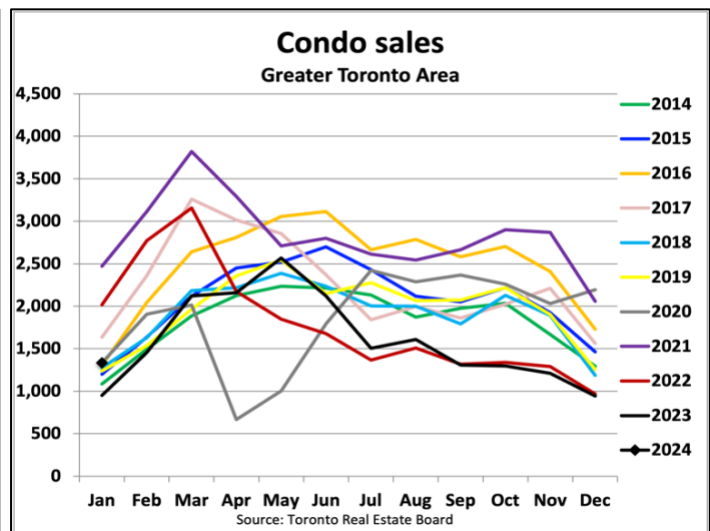
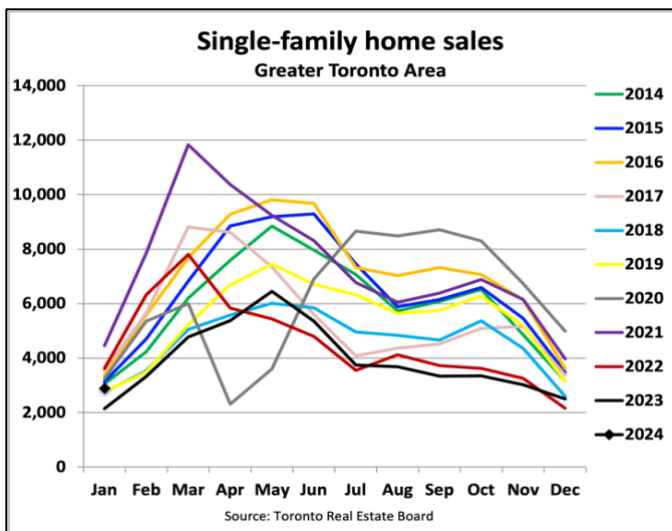


That improving sentiment is driving resale activity. Seasonally adjusted home sales rose 9.6% m/m in Toronto (albeit off a December sales figure that was revised 2.8% lower) and were up a whopping 36% y/y.





Sales across all segments are historically still relatively weak but well above the multi-decade lows seen in January 2023.

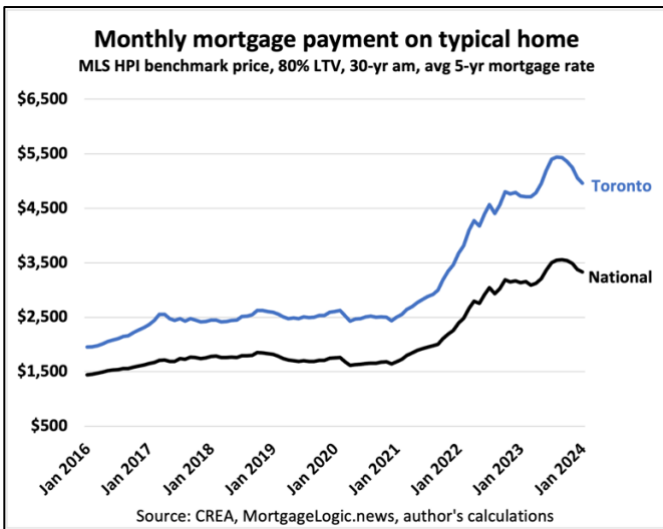


How deep is this buyer pool?

I believe that what we're seeing is a number of well-qualified buyers starting to reengage after sitting on the sidelines for an "all clear" from the Bank of Canada. That incremental demand is hitting at a time when active listings are at seasonal lows for the year.

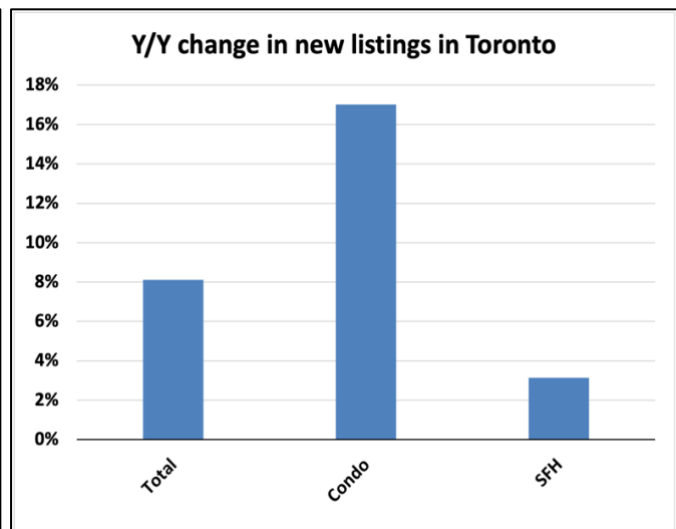
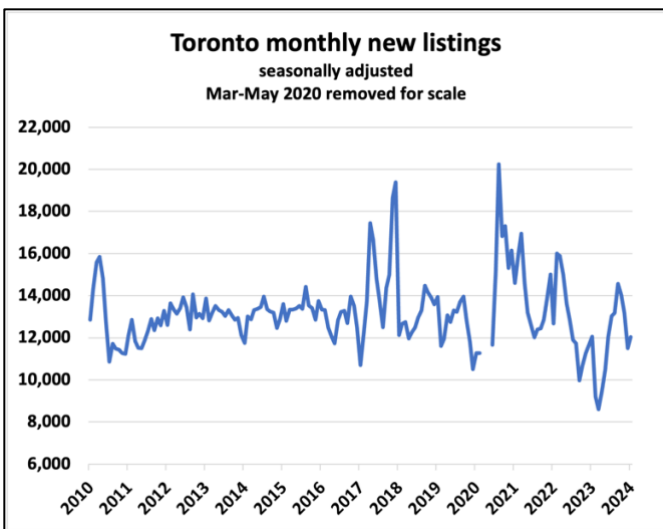
I expect we'll see sales rise another 10-20% seasonally adjusted from current levels through the spring before sales likely come back under pressure before the summer. Call it a less extreme version of the whip-saw we experienced in early 2023 when prices in metros across the country ripped 5-10% between March and July.

Ultimately, we've still got a lot of wood to chop on the affordability front. The monthly mortgage payment required to buy a typical home is still double what it was in 2021, while affordability has deteriorated to the lowest level on record. Until that improves materially, it's unlikely we'll see a return to a healthy/normal level of demand:



Constrained supply

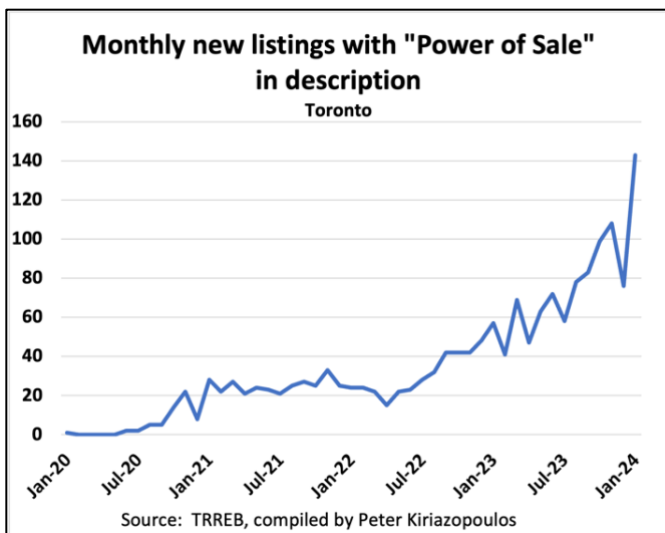
New listings rose 4.6% m/m in Toronto and were up 8% relative to last year (and up 17% in the condo segment), but they remain below decade averages. There's still just no supply!



The sales-to-new listings ratio improved again to 54% in January after hitting a low of 36% in late 2023. This puts it at the bottom end of the balanced range, and if these levels hold, we should expect prices to level out and begin to rise in coming months:

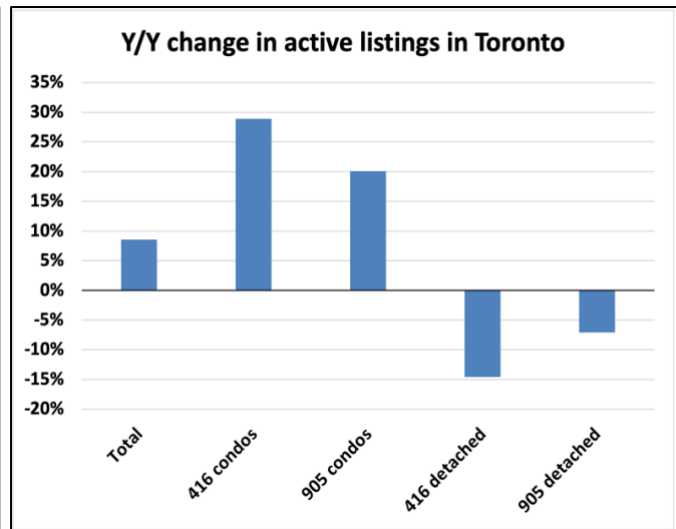
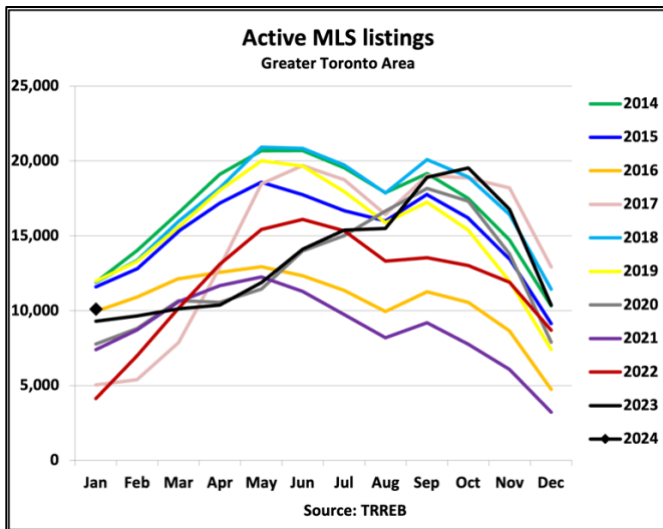


One thing to watch as we move through the year is the number of power of sale listings coming to market. Overall, new listings are relatively low and stable, but there's clear signs that rates are beginning to hurt a subsegment of borrowers, and that could drive higher levels of new listings. Credit here goes to my friend Peter Kiriazopoulos for compiling this data:

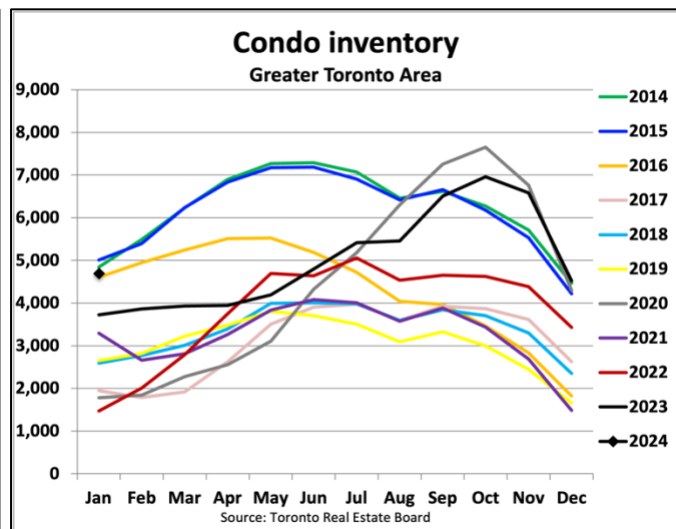
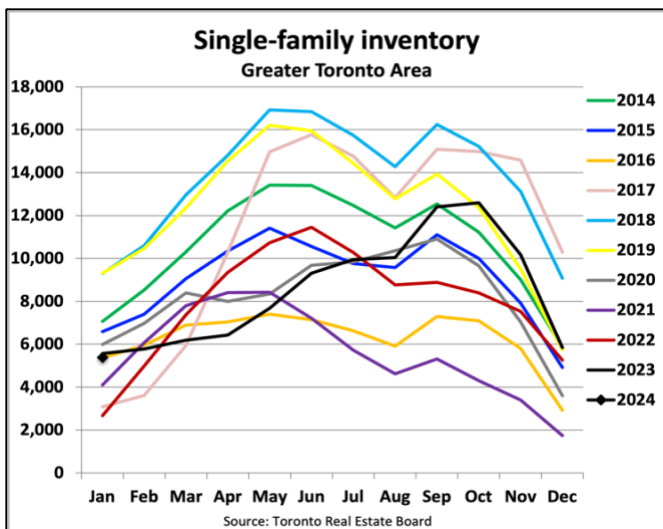


Inventory still tight for single-family

Active inventory was up 8.5% y/y in Toronto but that skewed heavily to condos where inventory was up 30% y/y in the city while detached supply fell relative to last year:

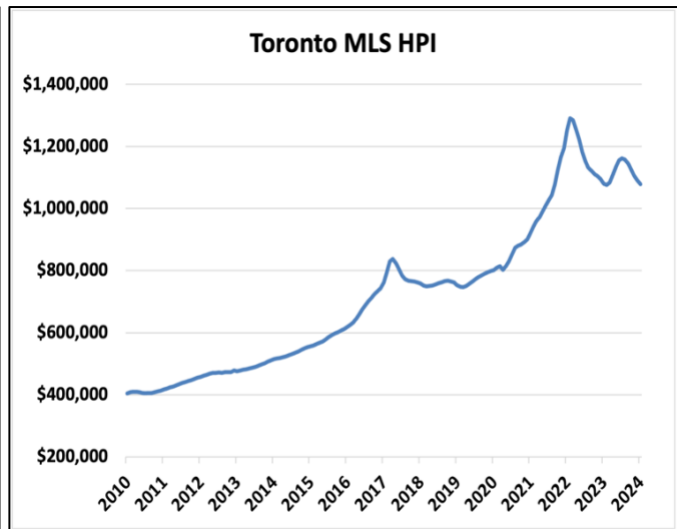
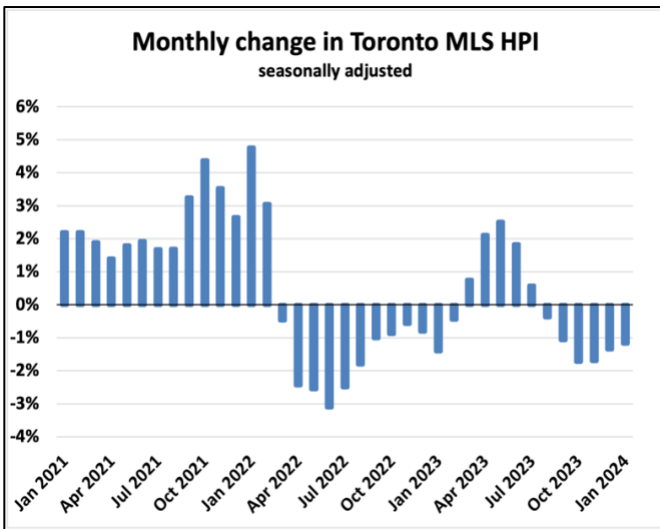


Shown differently, you can really see the difference in single-family inventory -which starts the year at slightly below average levels- and condo inventory, which is just off record highs:

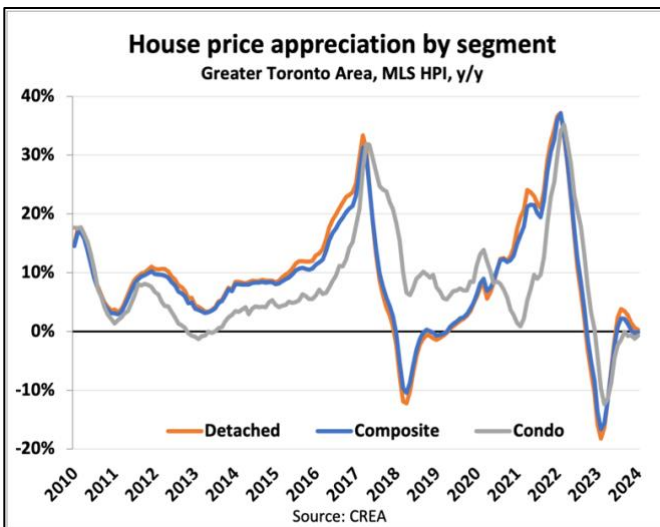


House price head-fake

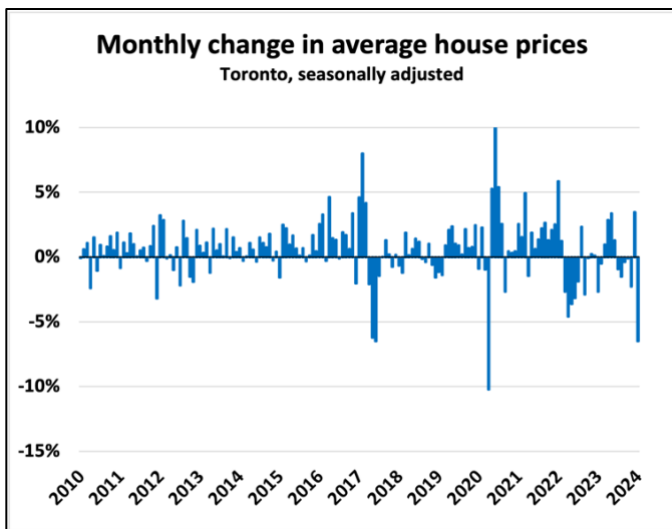
House prices continue to grind lower in Toronto, with the seasonally adjusted HPI down another 1.2% m/m and back in-line with the February 2023 lows:



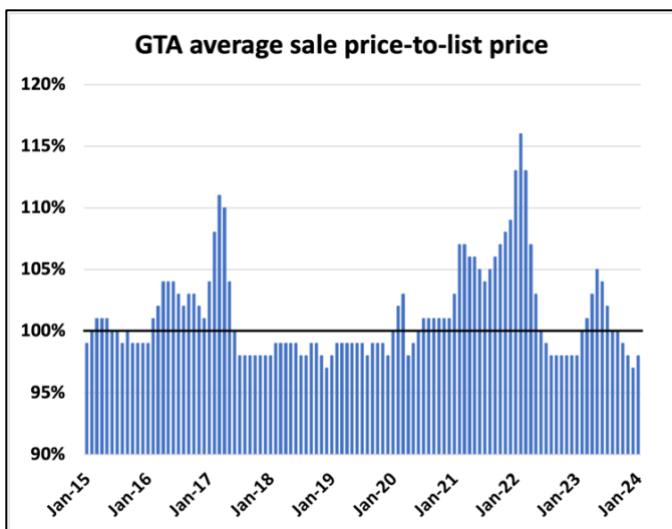
Prices across all segments are effectively flat compared to last year:



It is notable that we saw a whopping 6.5% monthly decline in the seasonally adjusted average sale price in Toronto in January, the largest such drop since April 2020. While this number garnered a lot of attention, it simply doesn't pass the smell test and is almost certainly a composition issue or seasonal adjustment quirk that will unwind in coming months.

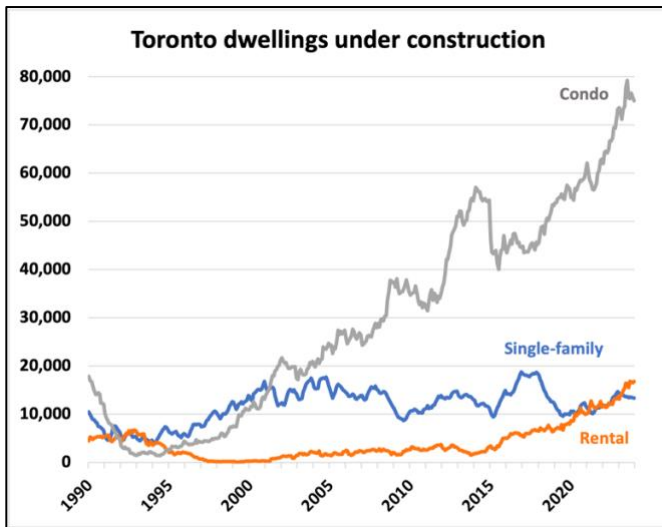


There have been some highly publicized bidding wars lately, but they appear to be confined to the most dramatically underpriced listings. The ratio of sale price to list price in Toronto ticked up slightly in January to 98% but it remains well below the 116% peak in early 2022 and the 105% interim peak we saw last spring when the market caught fire:

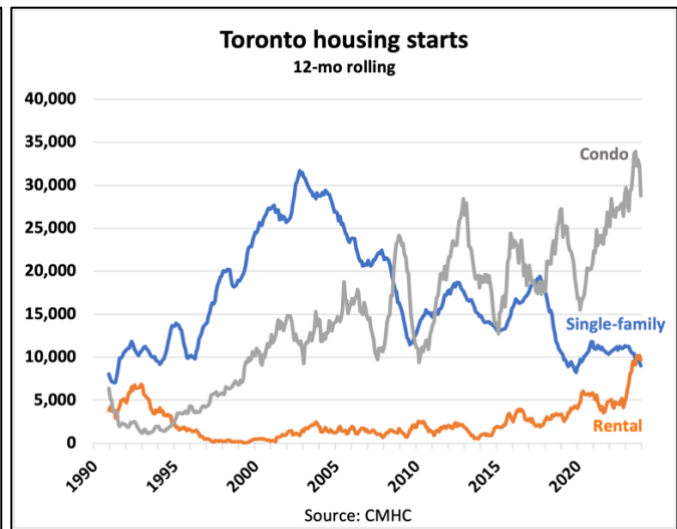
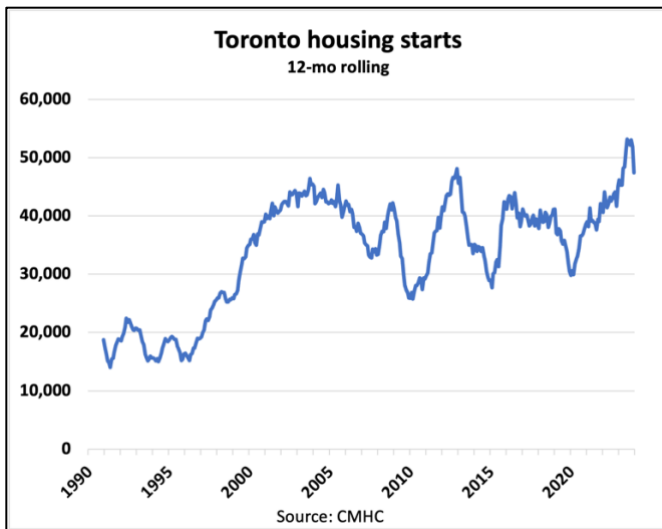


Under construction inventory falls again

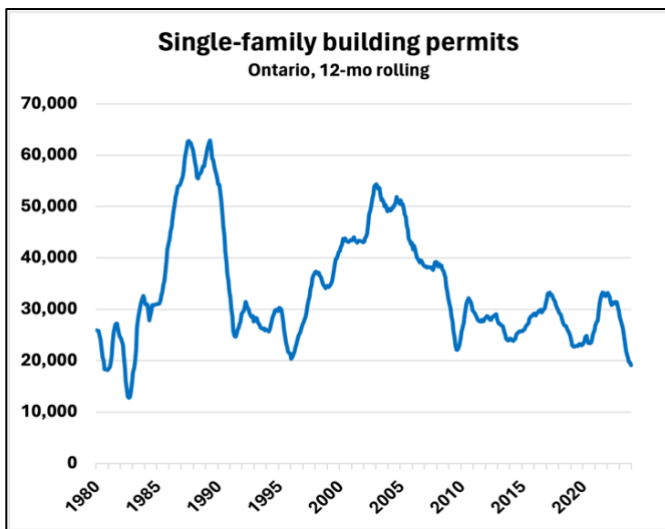
Dwellings under construction across the GTA fell another 0.5% m/m in December. Condos and the single-family segment saw declines of 0.9% and 0.8% respectively while rentals jumped 1.8% m/m:



It's tempting to look at housing starts and see a relatively solid showing over the past year, but that hides a sharp divergence between segments. Single-family starts have fallen to the lowest levels outside of the 1990s with the exception of a couple months in 2020 while rentals and condos remain near record highs:



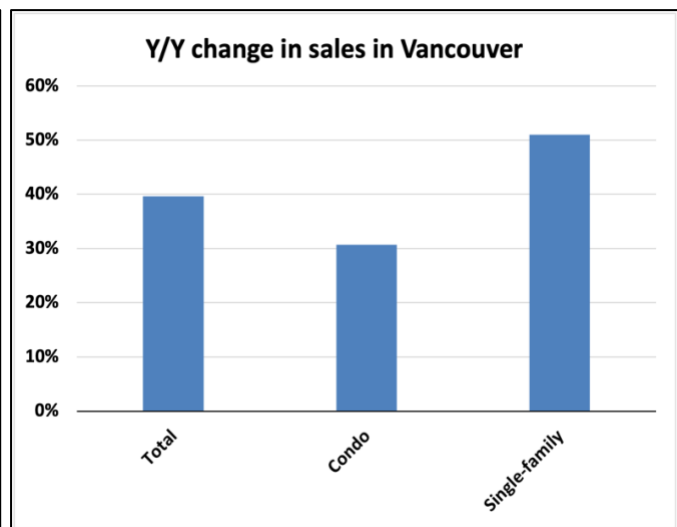
Things will almost certainly get worse from here. Building permits lead housing starts, and the trend in single-family permits across the province is downright scary right now. Permits in that segment fell 27% y/y across Ontario in December, pushing the 12-month total to a fresh 40-year low! If you don't see the makings of a potential supply crisis on the horizon, you're not looking hard enough:



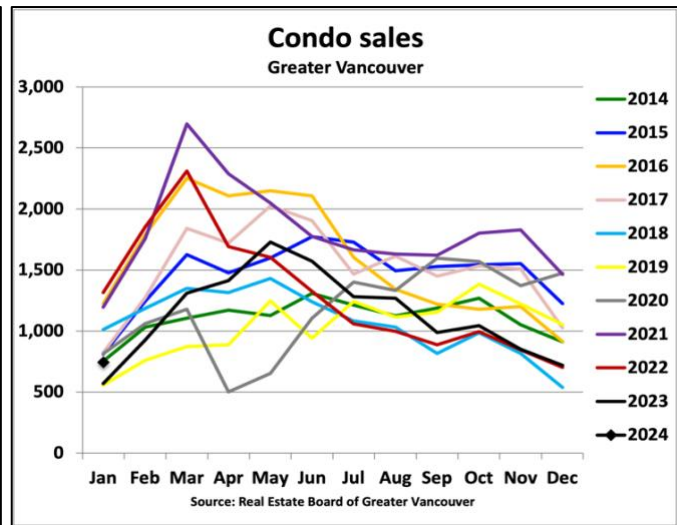
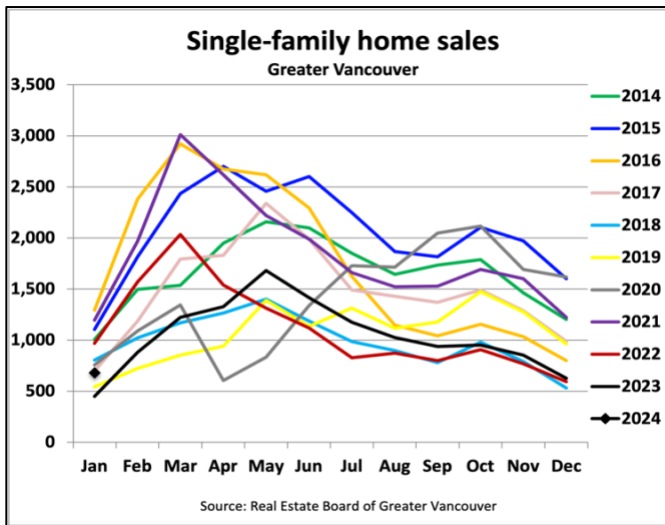
3) Vancouver: Strong start to 2024

Sales surge to start the year

Seasonally adjusted home sales in Vancouver surged an estimated 12% m/m and were up 40% compared to last January (and over 50% in the single-family segment):

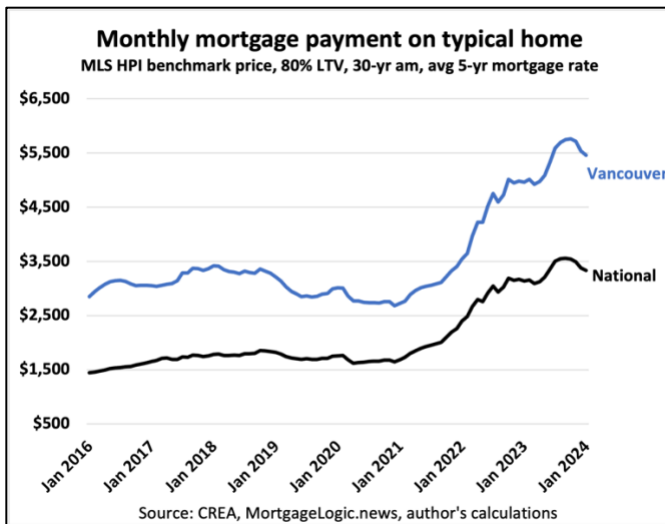


Still, that leaves sales are one of the weakest levels of the past decade for this time of year, although contacts in Vancouver are uniformly reporting a very notable increase in viewings and foot traffic through open houses. Given that “on-the-ground” intel, I expect seasonally adjusted sales will continue to trend higher into the spring.



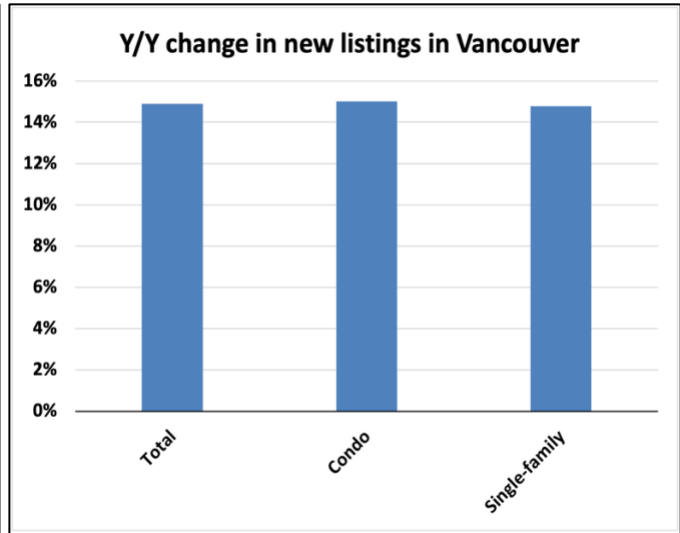
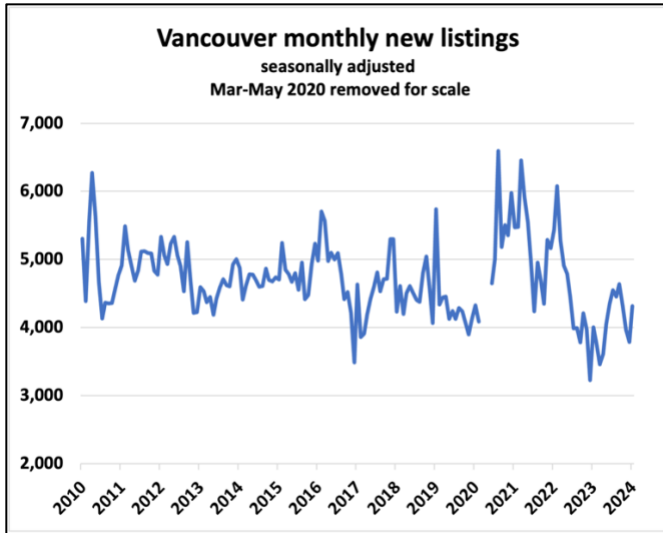
Affordability still challenged, but improving

As with Toronto, I suspect that the current sales bounce will run a few months longer before affordability pressures put a cap on demand later this spring. A buyer purchasing a typical Vancouver home today and financing at 80% LTV would be facing monthly payments of nearly \$5,500...more than twice what it was in 2021! Until that changes, it's unlikely we'll see home sales in Vancouver return to prior highs:



New listings jump but are still below average

New listings surged an estimated 13% m/m were up 14% compared to last year. Still, that leaves them well below normal levels over the past decade:

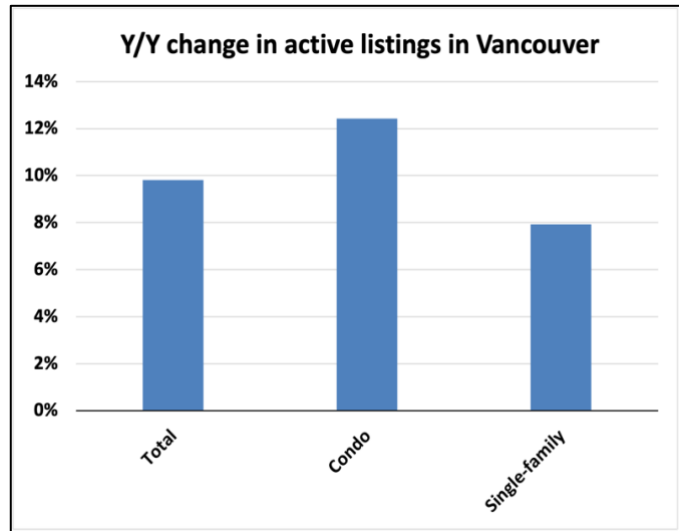
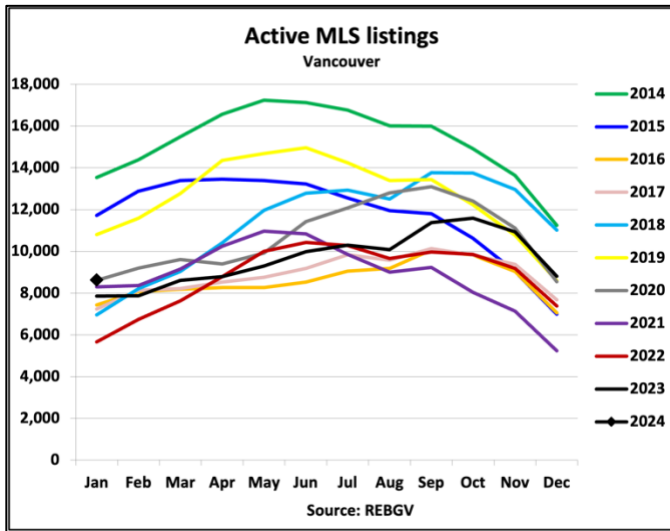


The sales-to-new listings ratio held steady at 53% in January, a ratio that is at the bottom end of the balanced range for Vancouver:

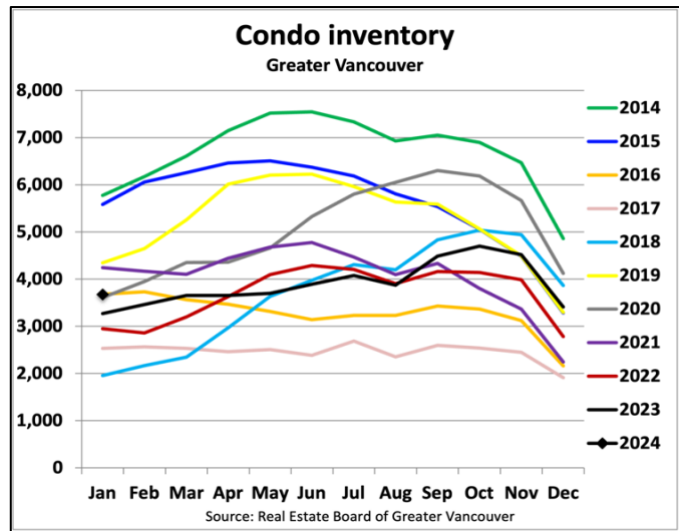
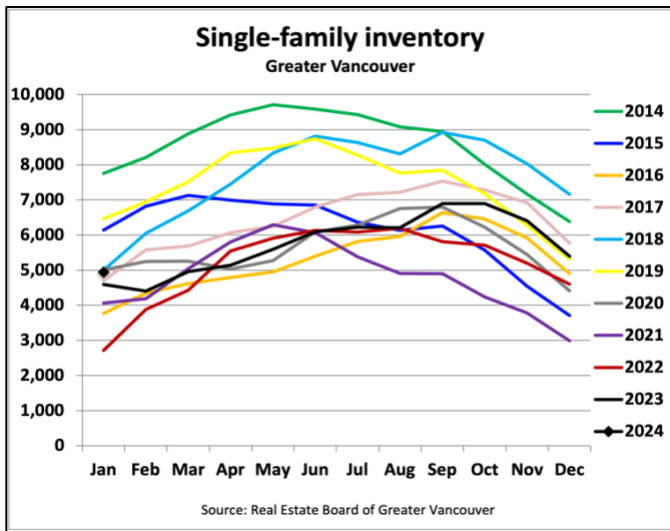


Inventory up 10% y/y

Active listings were up 10% compared to last January including a 13% increase in the condo segment:

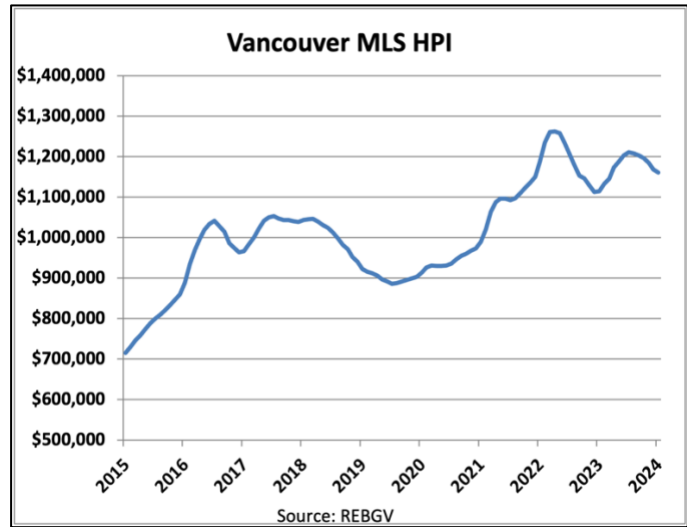
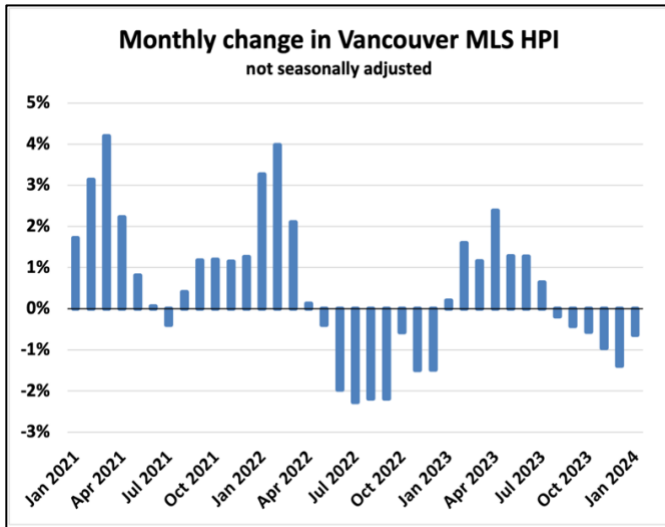


In spite of 18 months of relatively weak sales, inventory across all segments is still only at average levels for the past decade. I think that speaks to the magnitude of the structural undersupply in this market:

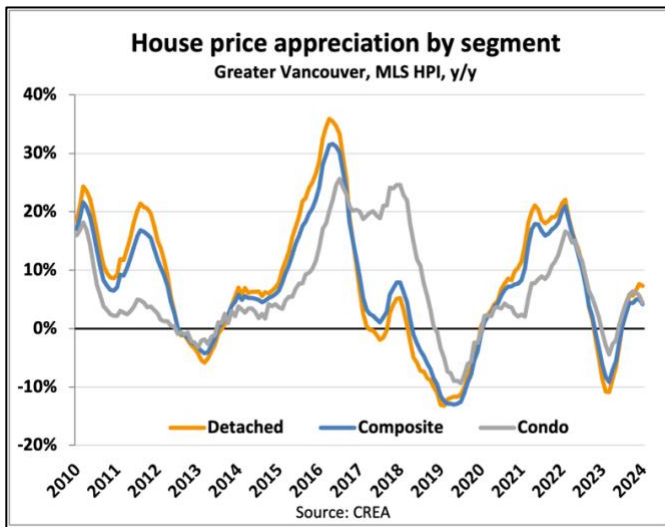


House prices tick lower

The MLS House Price Index (HPI) registered a 0.6% monthly decline in January, but I suspect prices will stabilize in coming months based on the current supply/demand balance:

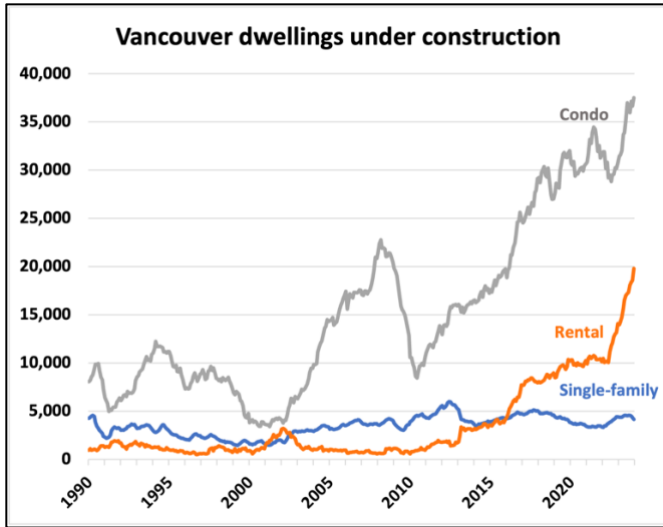


Detached prices were up 8% y/y while condos were up 5%.

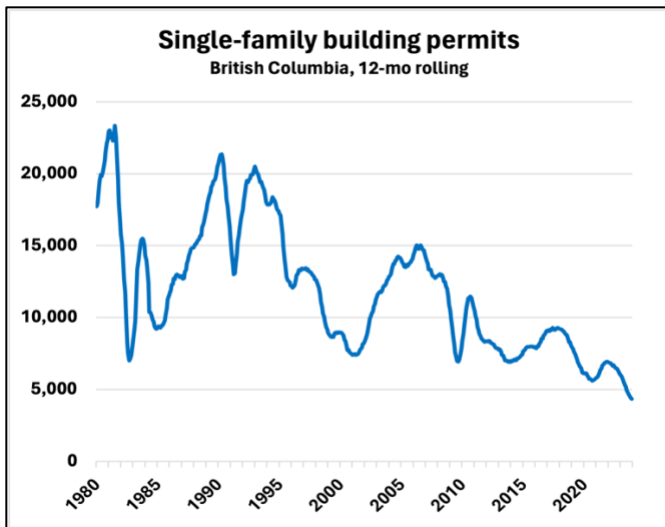


Dwellings under construction jump in December

The number of dwellings being built across Vancouver jumped by 3.2% in December to hit a record high of 61,400. A 6.7% increase in rentals and a 2.3% jump in condos offset a 4.9% decline in single-family:



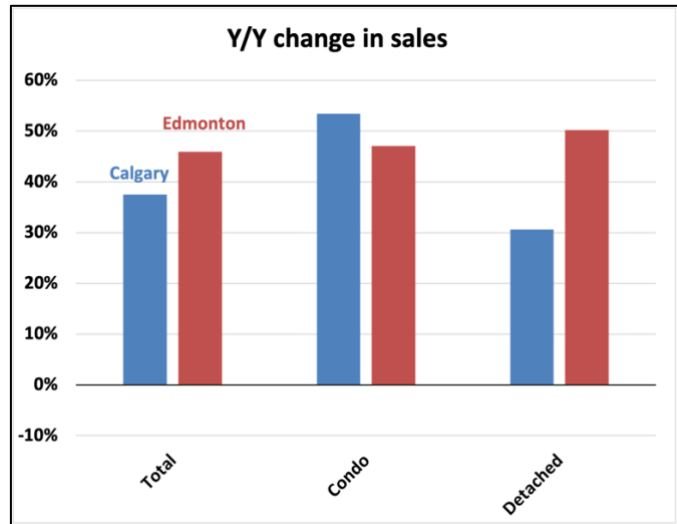
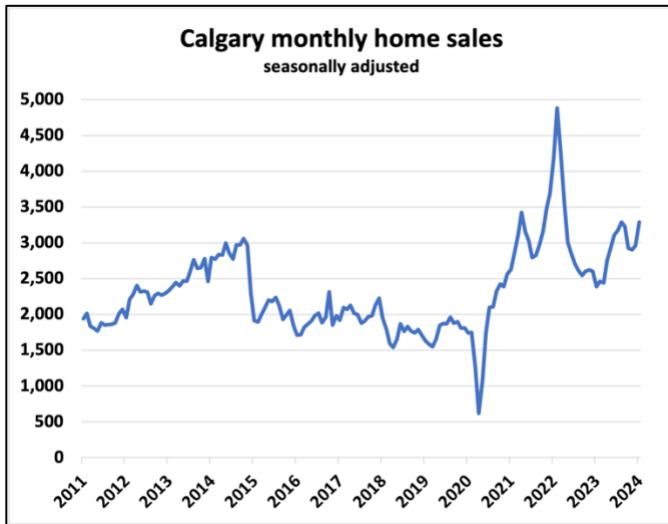
That decline in single-family construction looks set to get much worse in 2024. Building permits for single dwellings fell 10% y/y in December and have now collapsed to record lows going back over 40 years:



4) Calgary home sales jump in January

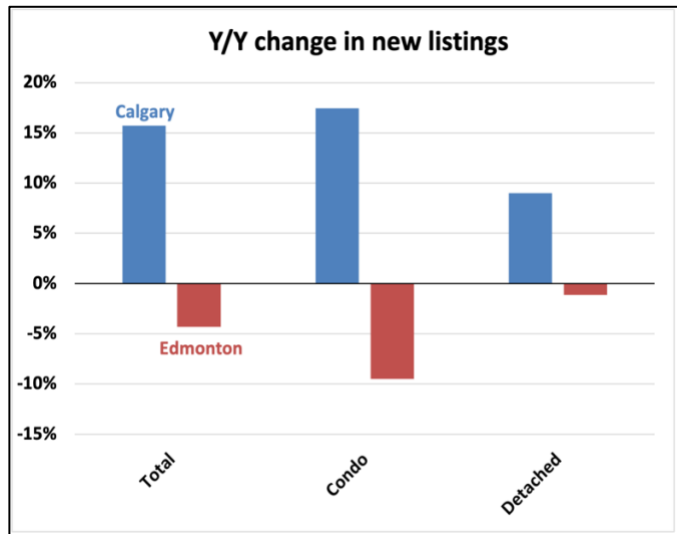
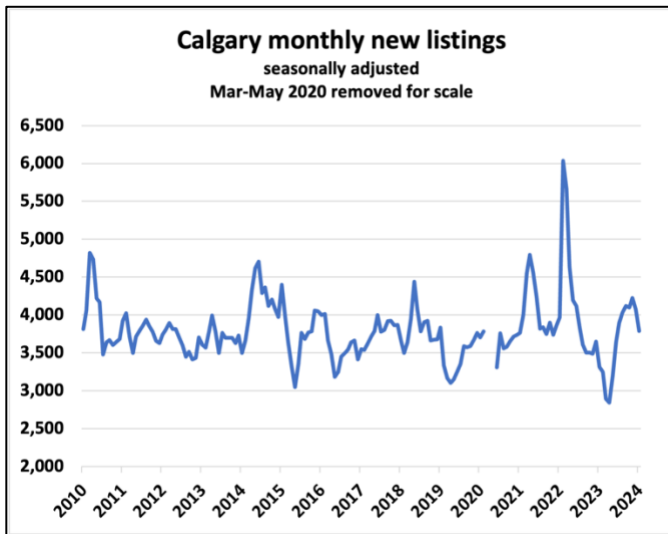
Demand surges

Seasonally adjusted home sales in Calgary rose an estimated 13% m/m in December and were up 38% y/y. Edmonton saw a 46% y/y increase(!!):

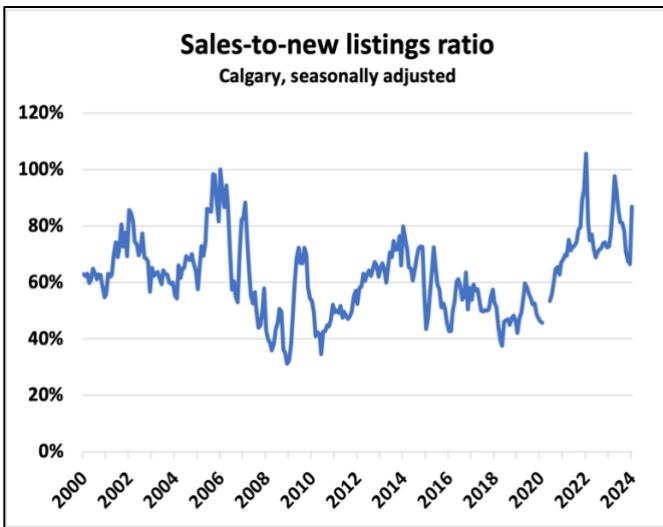


New listings fall

Seasonally adjusted new listings fell an estimated 7% m/m in Calgary in January, but they remained 15% above 2023 levels. In Edmonton, listings were down 4% y/y:

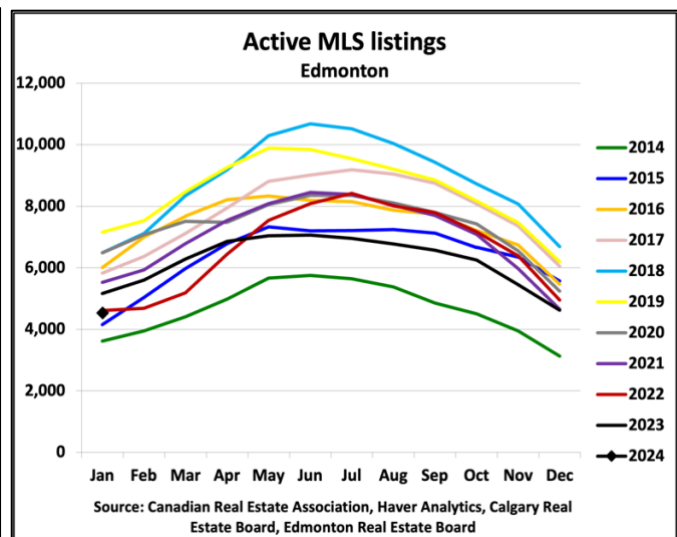
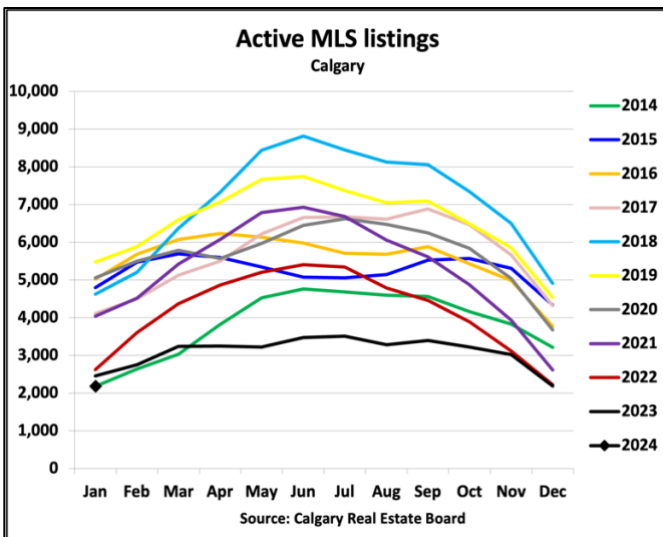


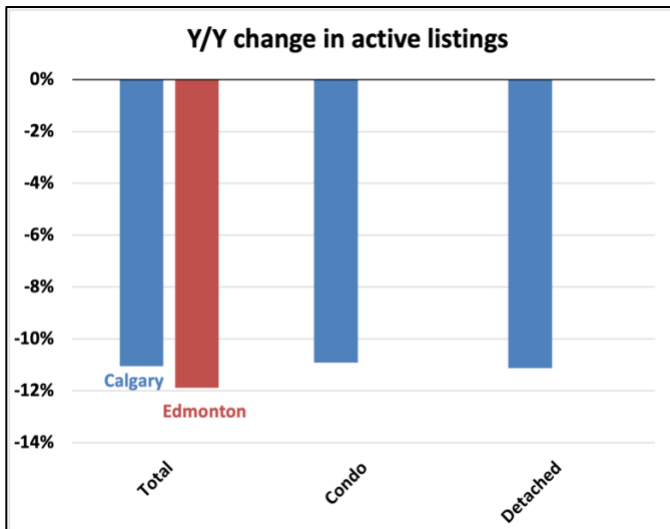
By my math, the sales-to-new listings ratio for Calgary surged to 87% in December...the 6th highest reading of the past 17 years. This is still a remarkably tight market....which is quite a thing considering we've just been through the steepest rate hike cycle of the past 30 years!



Inventory levels down sharply compared to 2023

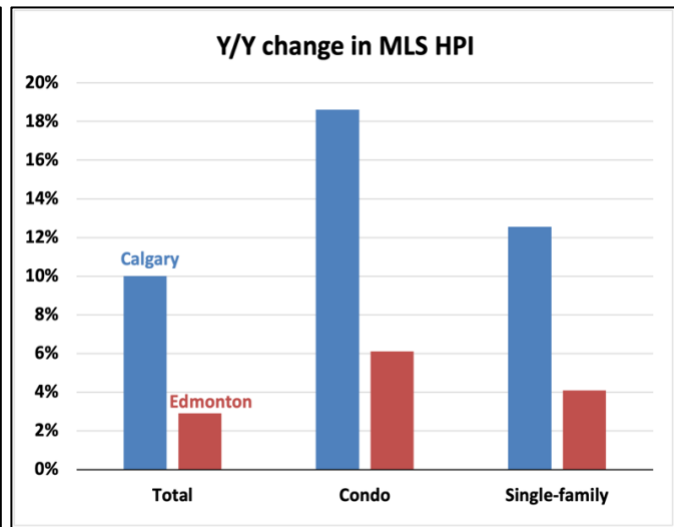
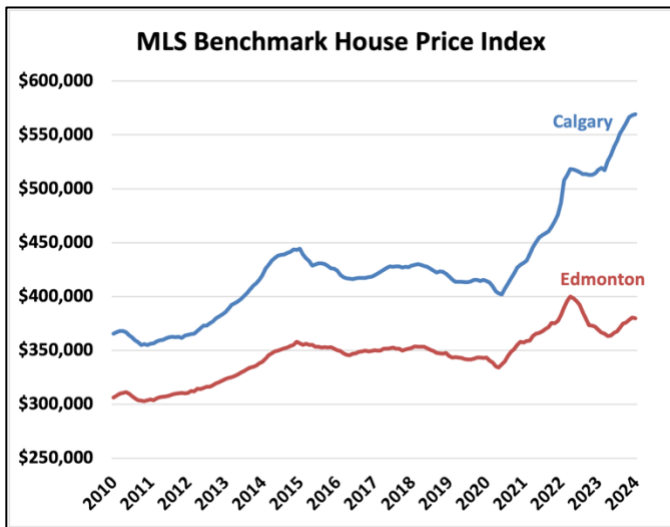
Active listings in Calgary and Edmonton were down 11% and 12% y/y respectively. In Calgary, inventory levels to start the year are effectively the lowest since 2006:

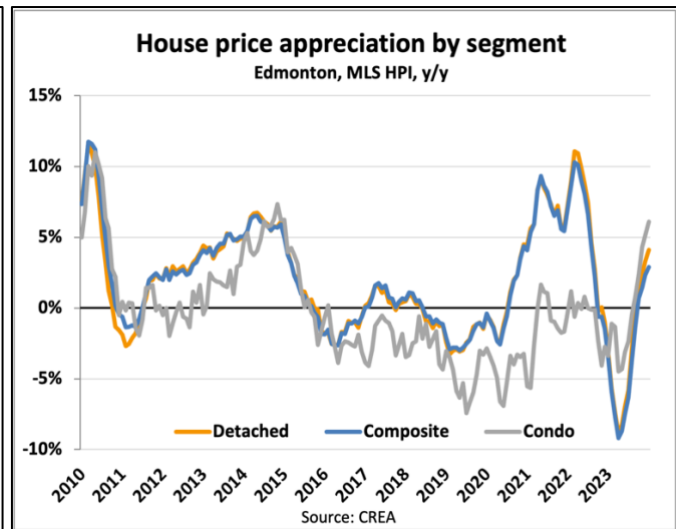
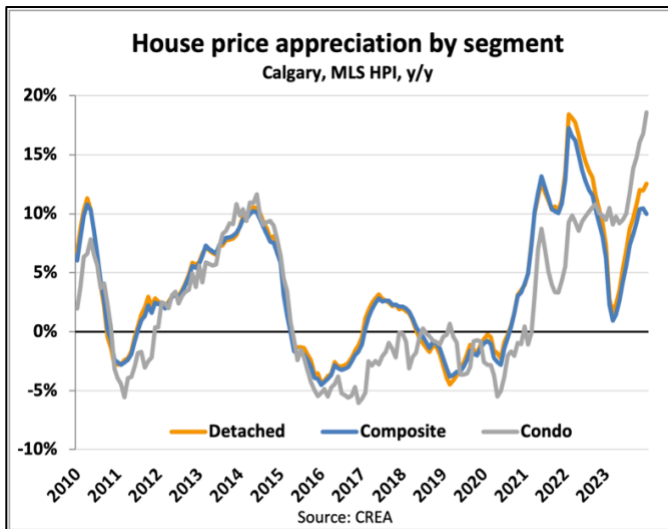




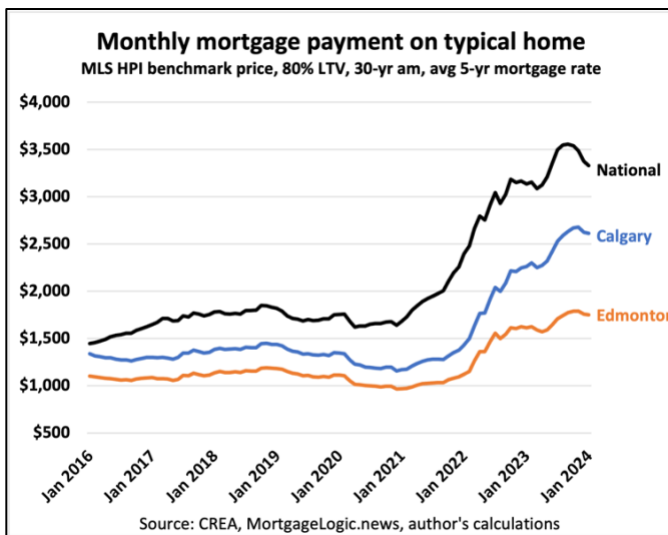
House prices jump in Calgary....froth emerging in the condo market?

House prices in Calgary were up 10% y/y overall but were up over 19% in the condo segment, including a 2.7% jump in January alone. You have to go all the way back to the boom times in 2007 to find the last time the condo market in Calgary was seeing price growth on this scale, and it does raise some concern that perhaps the market is starting to see some speculation and froth.



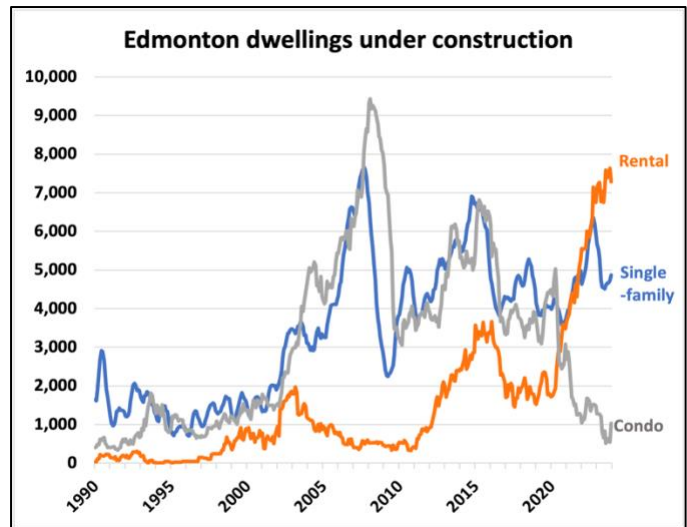
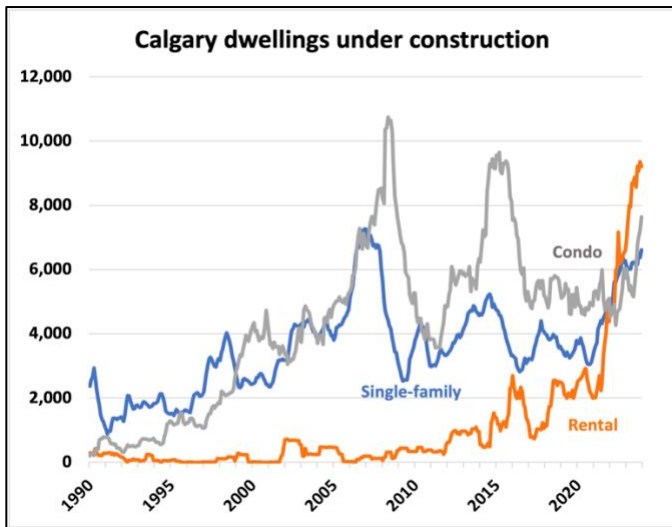


Affordability has deteriorated in Calgary and Edmonton, but remains much better than the national average. The monthly mortgage payment needed to purchase a home in Calgary at 80% LTV and current rates is just over \$2,600 while in Edmonton it's just \$1,750.

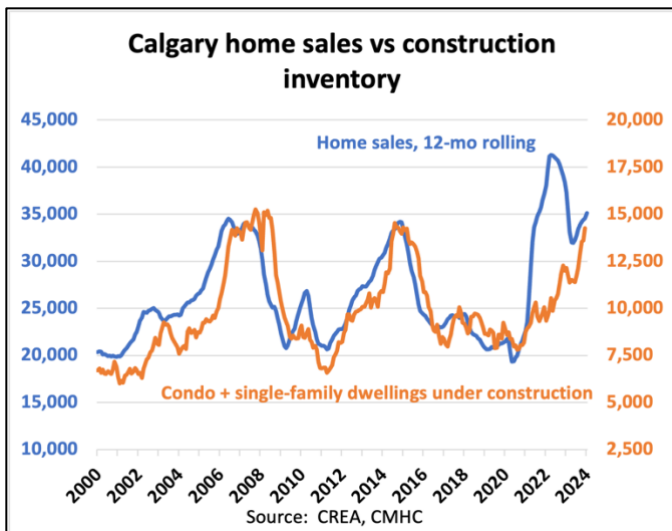


Construction activity rises again

Dwellings under construction across Calgary jumped another 2.3% in December led by a 5.9% jump in condo construction. There are now 48% more condos under construction in Calgary than just 6 months ago!!



We're now getting to the point where my indicator of potential cyclical overbuilding is starting to flash a warning signal. This won't be an issue for 2024, but I suspect we will see a much better supplied market in 2025 as these dwellings begin to complete.



Have a great day!
Ben