



March 2024
Metro deep-dive: February data

Quick links:

- 1) **Macro commentary: The recession is here**
- 2) **Toronto spring bounce fades, but prices firm**
- 3) **Vancouver sales stall in February**
- 4) **Alberta commentary: Is Edmonton about to boom?**

1) Macro commentary: The recession is here

Rate markets have been pretty stable over the past couple weeks, and the Bank of Canada (BoC) rate announcement today did little to change that. The BoC held rates steady and even had some slightly dovish language in the press release, noting that “there are signs that wage pressures may be easing”.

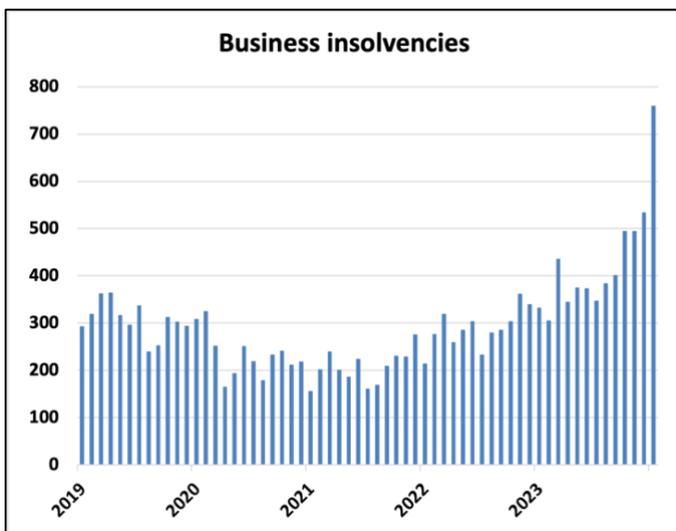
Expectations are for 75bps (0.75%) of rate cuts this year, with the first cut expected next month. I think that’s wrong.

I am now VERY convinced that the economy is cooling MUCH quicker than the BoC recognizes. I think we’re likely to see closer to 1.50% in rate cuts this year, and I think by the fall there will be serious discussions about the necessity for 50bp rate cuts at the October or December meetings.

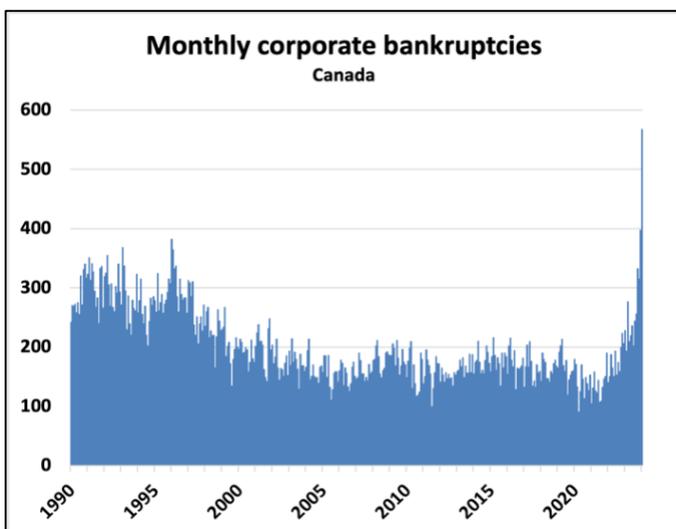
Here’s what I think they’re missing:

Businesses are in big trouble

Insolvency data was released this week, and it was REALLY bad. Business insolvencies spiked in January to the highest levels since 2006.

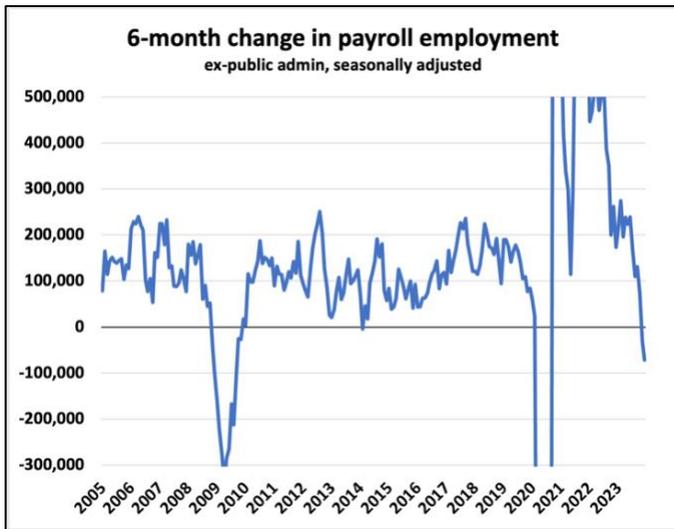


And if we look specifically at corporate bankruptcies (a sub-component of total business insolvencies), the numbers are literally off the charts:



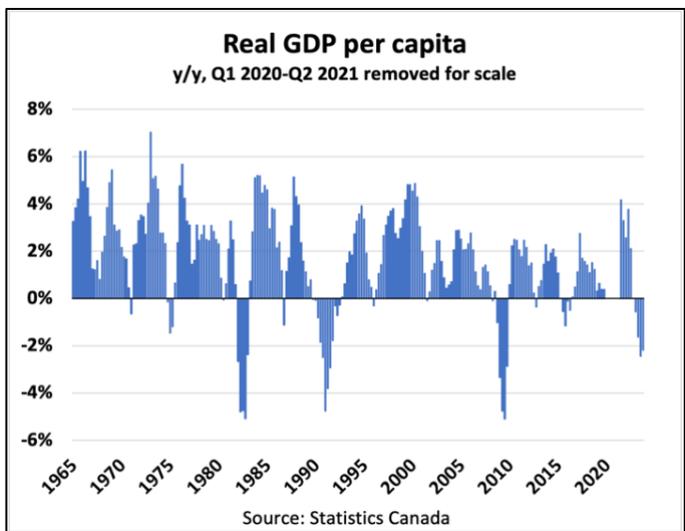
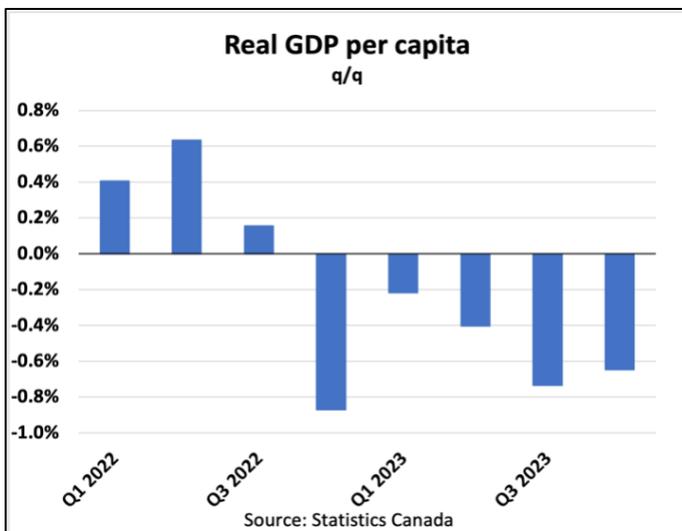
The labour market is clearly rolling over

You cannot have that many firms going out of business for any length of time before it shows up in the labour market. We're now clearly seeing it. Private sector payrolls have declined over the past 6 months for the first time since the pandemic lockdowns, and prior to that, the Financial Crisis. This is a major recessionary signal:



Per capita GDP is falling

We've also now seen 5 straight quarters of declining per capita GDP, and it's falling at an annual rate that has ALWAYS been recessionary in the past:



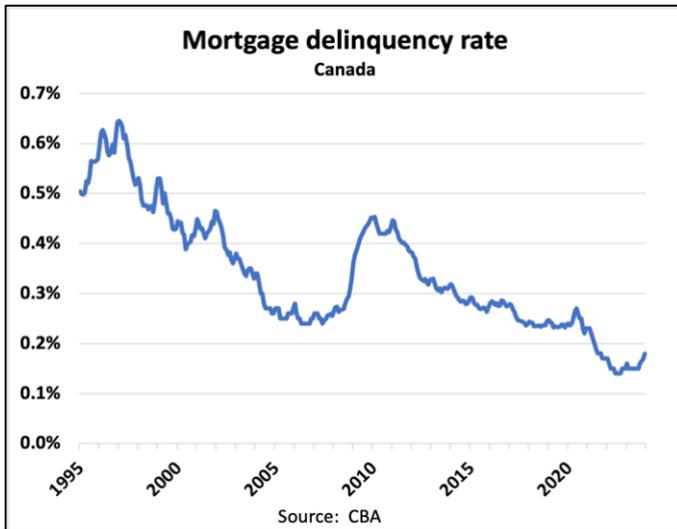
That means all of the growth in headline GDP is coming from an expanding population as opposed to rising output per person. That's fine as long as we can sustain population growth in the 3% range, but regular readers will know my views on that matter: I think it's a pipe dream to think that non-permanent residents can continue to add 800,000 people to the population annually at a time when the feds are actively tightening study and work permit programs....the two main drivers of non-permanent resident growth.

I'm personally expecting population growth to be cut in half within the next 18 months, and that alone will remove a major tailwind to GDP growth.

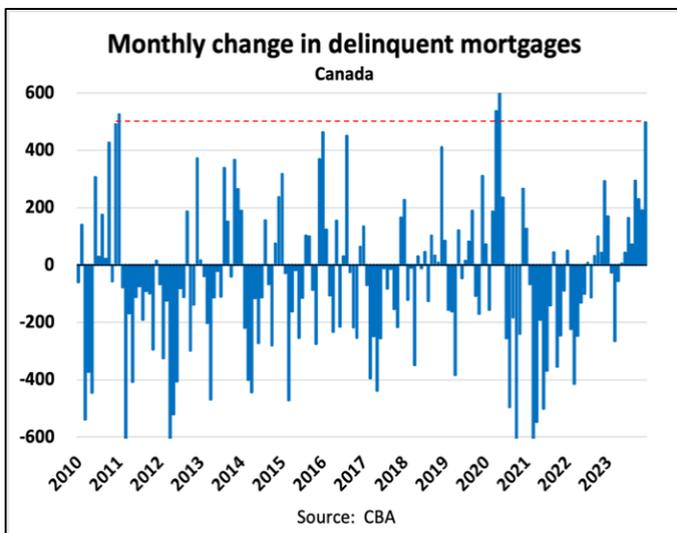
Mortgage delinquencies are rising quicker than the Bank realizes

I've said before that I'm expecting mortgage delinquencies to more than double over the next 12-18 months, which sounds like a lot but in reality will only bring the arrears rate back to long-term norms.

The December delinquency data shows the national arrears rate rose to 0.18% from 0.17% previously.



No big deal, right? Well not so fast. The number of delinquent mortgages rose by 500 nationally in December. That's not a huge number in the context of over 5 million mortgages at big banks, but that still represents the highest monthly increase since April and May of 2020. And before that, you have to go all the way back to 2011 to find the last month when it rose this much:

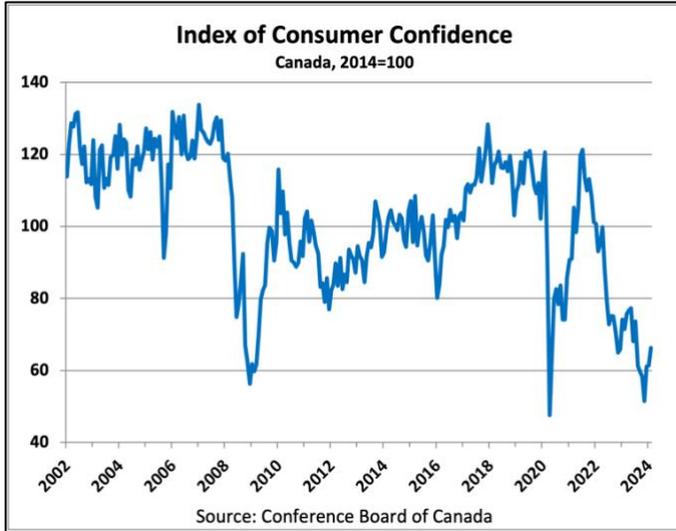


Things are happening under the surface, and I think by late spring it will be abundantly clear that the Canadian economy simply does not work with rates at these levels. Once that realization sets in, we'll see rate cut expectations shift dramatically. While there's a lot of uncertainty in the outlook, my call remains for 1.50% of cuts this year.

2) Toronto spring bounce fades, but prices firm

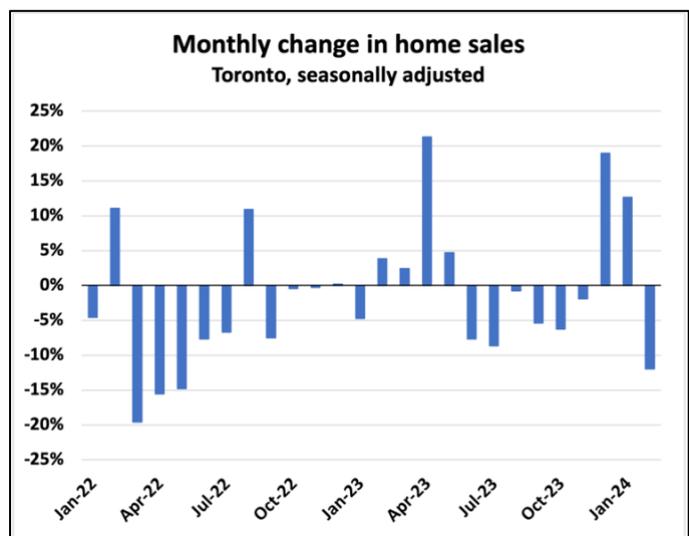
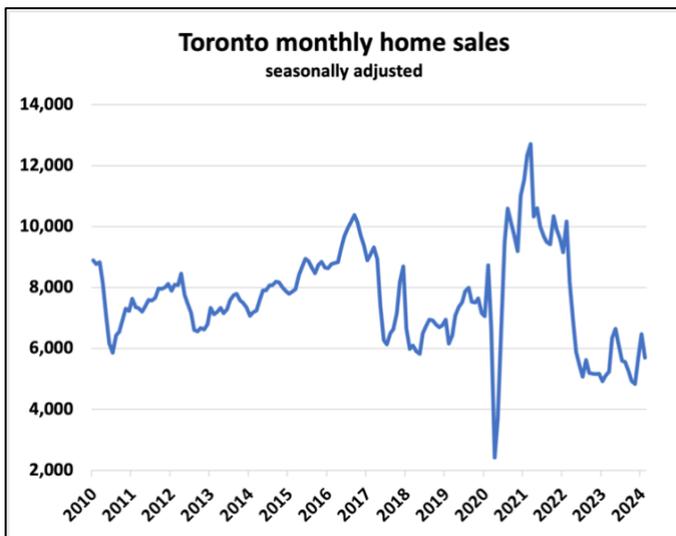
Sentiment remains on the upswing

February saw the third straight months of improving consumer confidence nationally off of what had been deeply recessionary levels. And the good news for those in the real estate space is that sentiment specifically towards housing continues to grind higher:

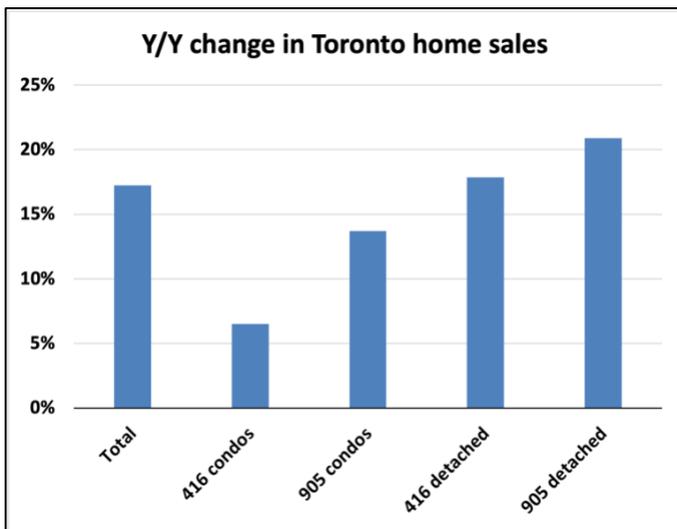


Buyers move to the sidelines

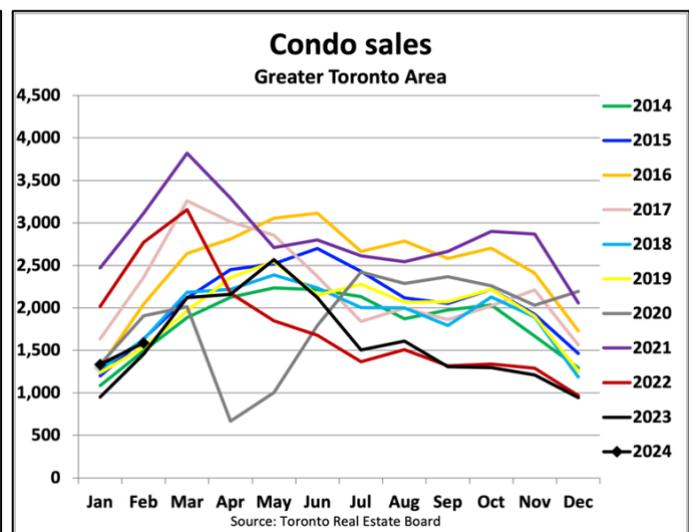
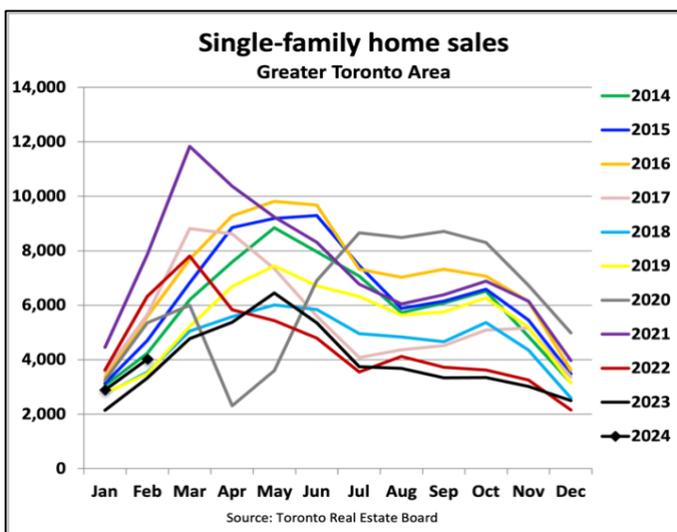
I continue to believe that we'll see a pretty good spring market due to improving sentiment, so it came as a bit of a surprise that seasonally adjusted home sales in Toronto saw a 12% pullback in February...the largest monthly decline since May 2022:



Still, sales are running roughly 17% ahead of 2023 levels overall and are up over 20% in the 905 detached market. Note the underperformance in the condo segment below, a trend that I suspect will continue for a while:

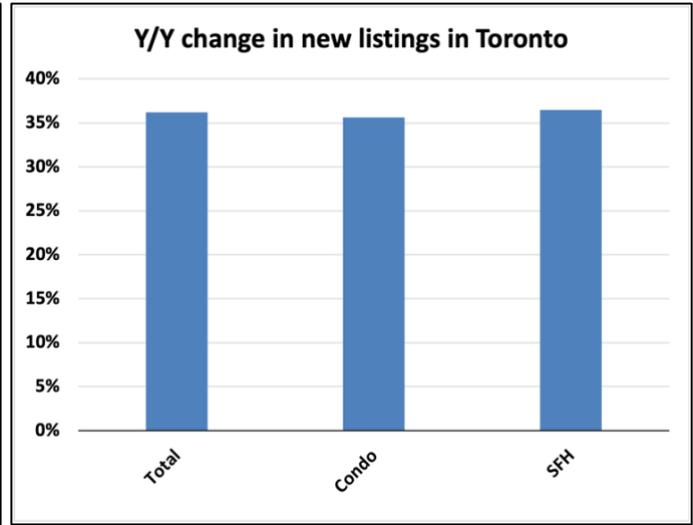
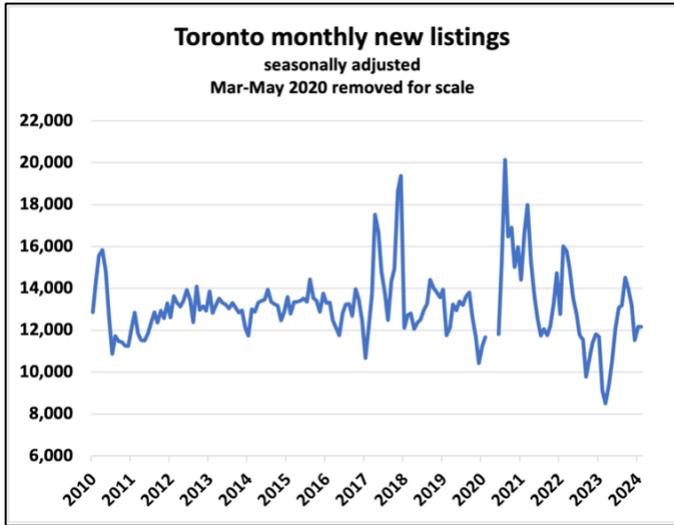


Sales are up off last year's lows, but remain historically quite weak:

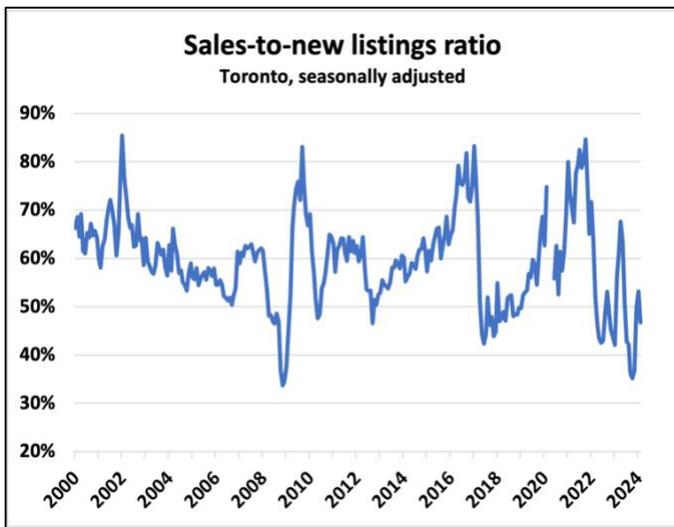


New listings up 36% y/y

Seasonally adjusted new listings were effectively unchanged in February relative to January levels, but compared to the same month in 2023, they were up 36%:

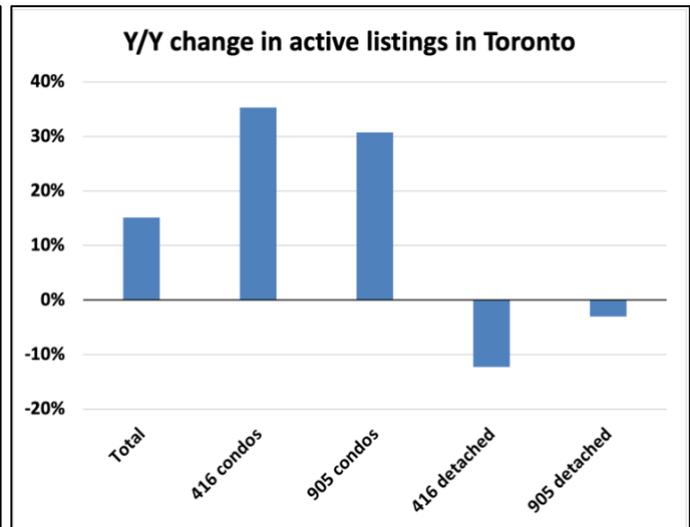
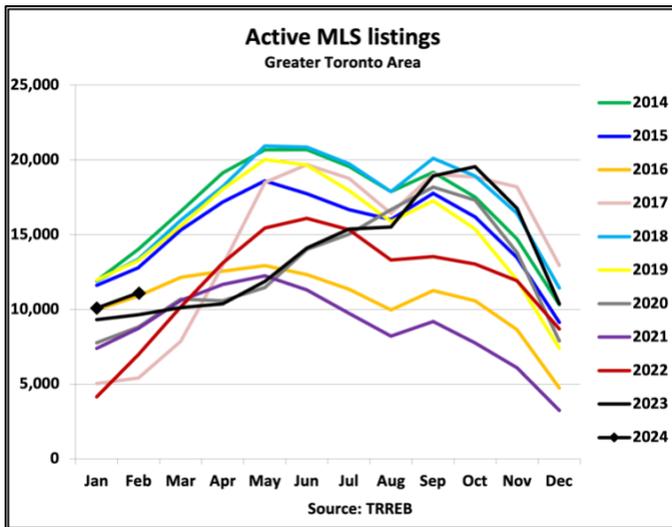


With sales down and new listings flat compared to January, the seasonally adjusted sales-to-new listings ratio fell to 47% last month, dipping back into buyer market territory.

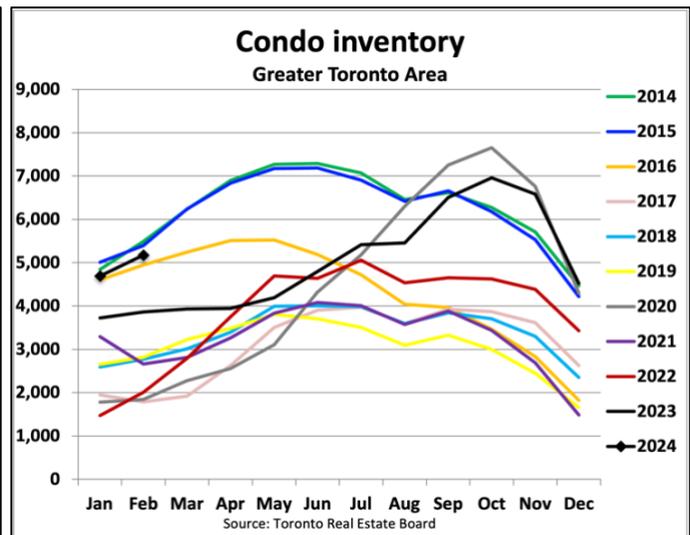
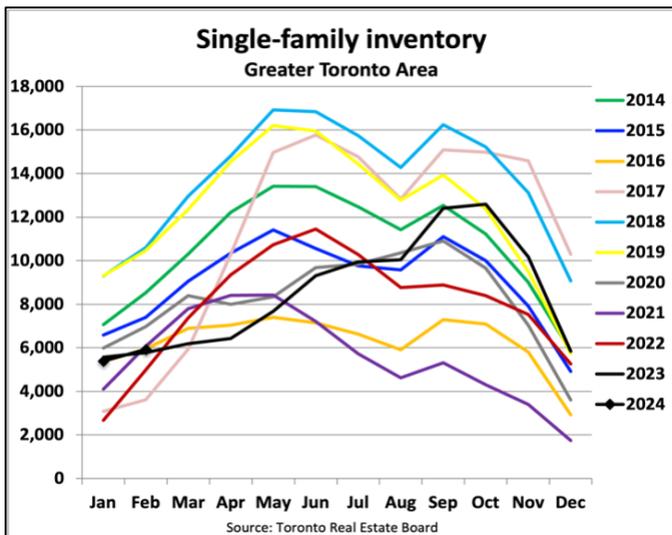


Condo inventory starting to accumulate

Active inventory was up 15% y/y in Toronto but that skewed heavily to condos where inventory in the 416 was up 35% y/y. Note that detached inventory in the 416 and 905 is LOWER today than one year ago....a sign that the single-family market (and particularly the entry level) is still very competitive:

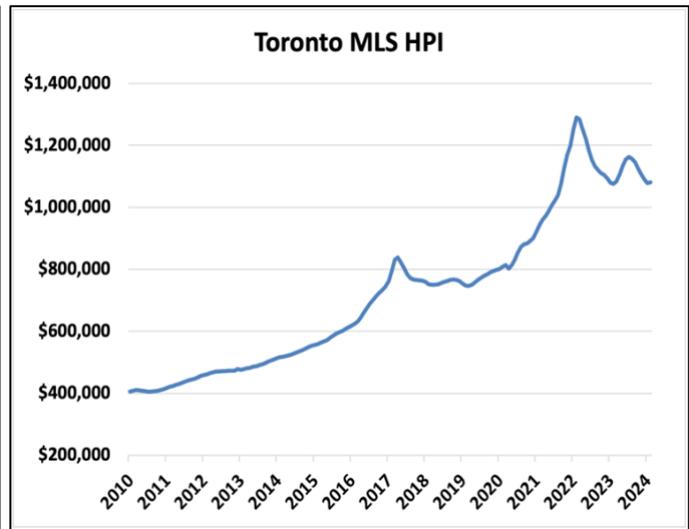
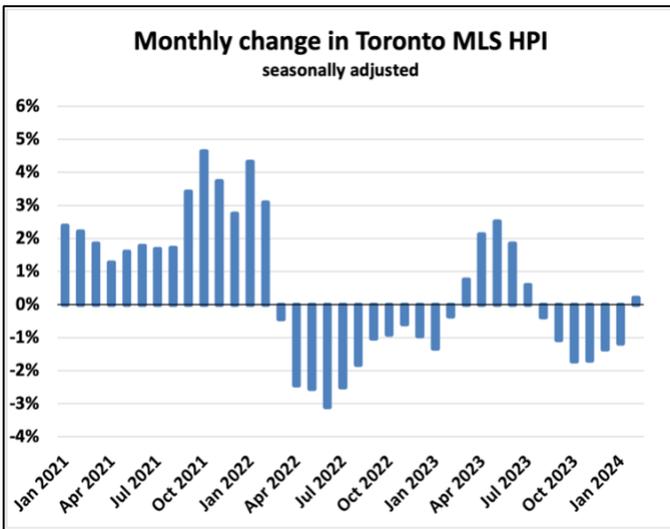


The divergence between condo and single-family inventory trends is quite striking right now, with single-family still well below normal levels while condo inventory is just a shade off the all-time highs for the month:

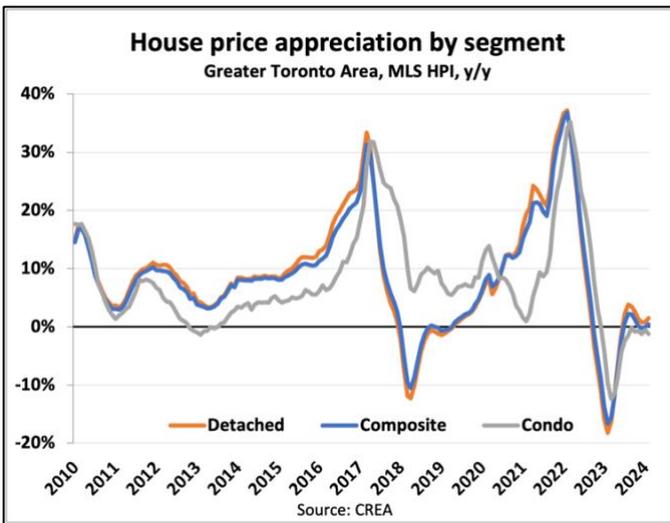


Prices bounce

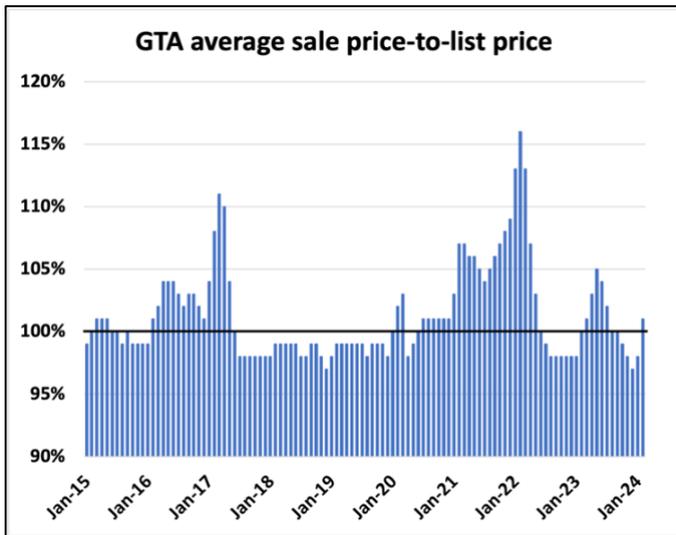
I said last month that the reported decline in house prices in January was a head-fake that didn't reflect how tight the market had become. Prices always lag because it takes time for both buyers and sellers to adjust expectations to a new reality. This month we had the seasonally adjusted House Price Index post a 0.2% monthly gain, the first increase since July of last year:



Relative to last year, prices are flat overall but that hides a divergence between detached (+2% y/y) and condos (-1.5% y/y):



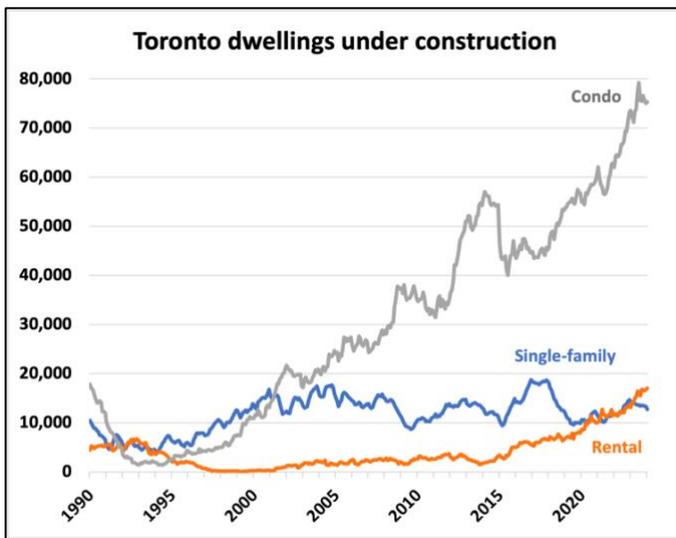
It's also probably telling that the average sale price rose above 100% of the list price for the first time since last summer....a sign that bidding wars are becoming more common again:



Looking forward, I expect we will continue to see modest price gains through the spring before they flatten out again later this summer.

Single-family construction inventory tumbles

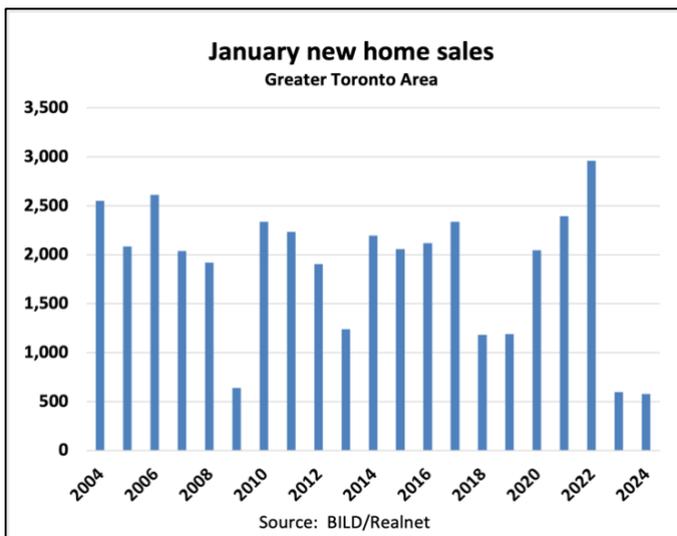
The number of dwellings under construction across Toronto fell 0.1% in December, the third consecutive monthly decline. The main culprit was a 4.5% drop in single-family construction activity which was offset by a 1.4% increase in rentals and a 0.4% rise in condos:



Single-family housing starts continue to roll over and are now within a stone's throw of the 2020 lows. This remains a very concerning dynamic that points to a potential severe supply shortage down the road once demand normalizes.



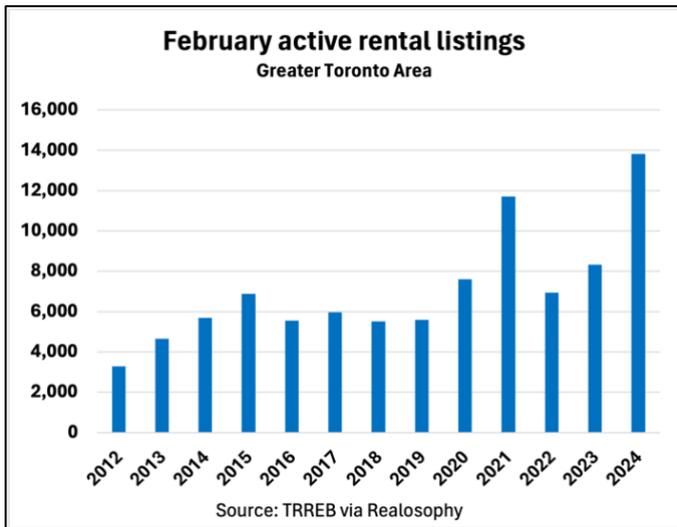
Part of the issue is that developers have to presell units before getting construction financing, and unfortunately the new home market is nearly dead. New home sales in Toronto fell 3% y/y but were down 80% from 2022 levels:



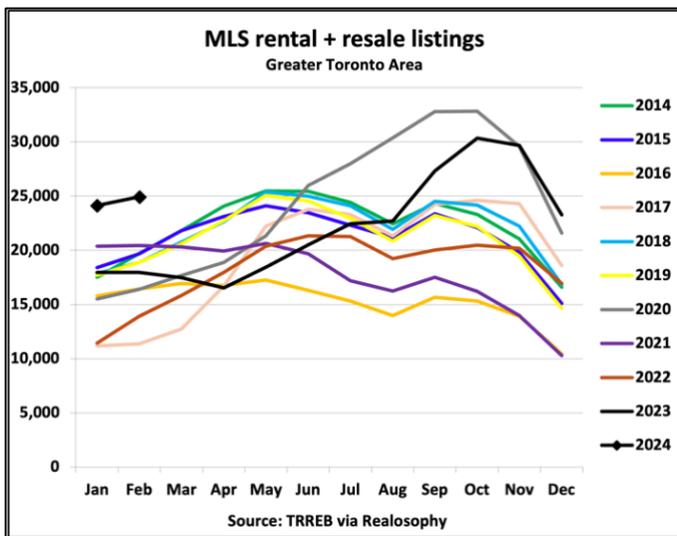
Solving the mystery of the missing supply...and why rents are so soft

One of the dynamics that has kept new listings quite low for the past 18 months or so has been the persistently strong rental market. After all, why sell your home into a weak resale market when you can rent it for top dollar?

We can now quantify this dynamic thanks to the fine folks at Realosophy. If we look at inventory on the MLS, we see that active rental listings in February were at the highest levels since at least 2012, and likely the highest ever:

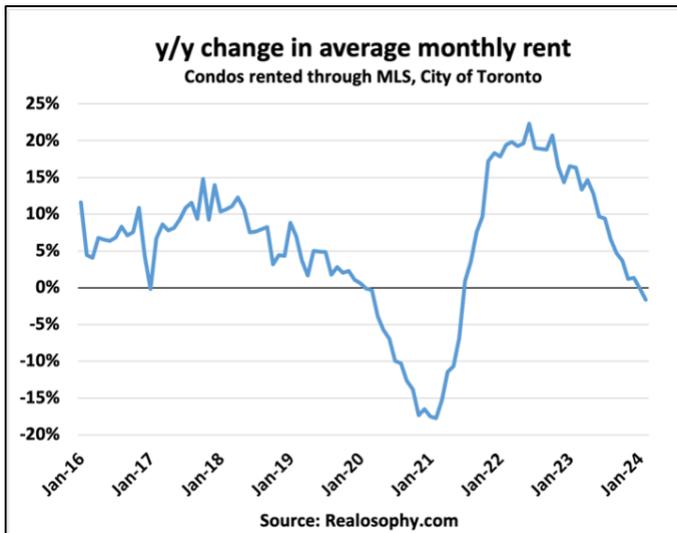


If we then add those rental listings to active listings in the resale market, we get a sense of the “true” supply picture:



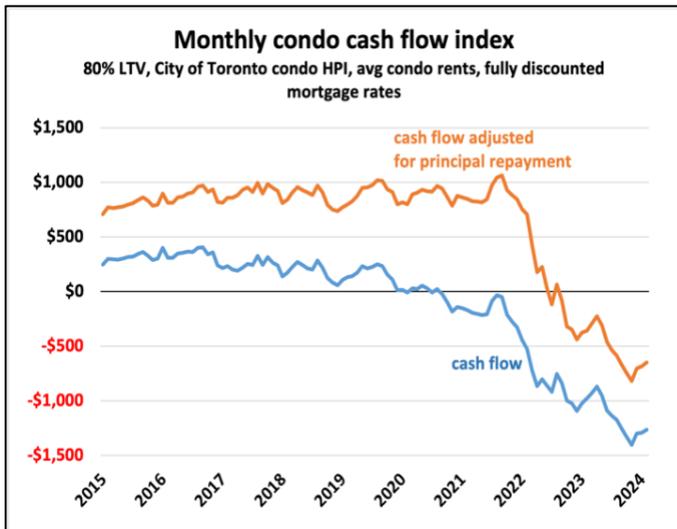
In case it's not clear from that graph, total inventory in February was 25% higher than any other February over the past decade.

There's enough rental supply out there that it's now weighing on average condo rents, which declined 2% y/y last month:

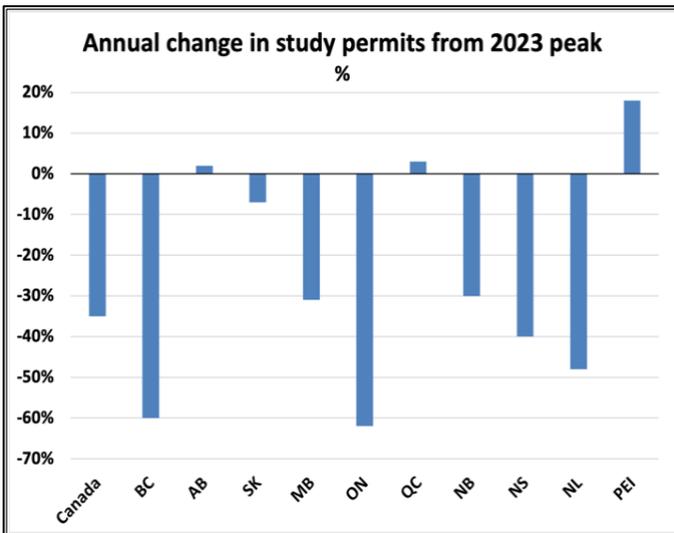


In fact, I reviewed a random sample of 30 condo rental transactions from the past two weeks in City of Toronto for units that had previously rented in the past 2 years. Exactly half of them rented for the same price or LESS than the prior lease.

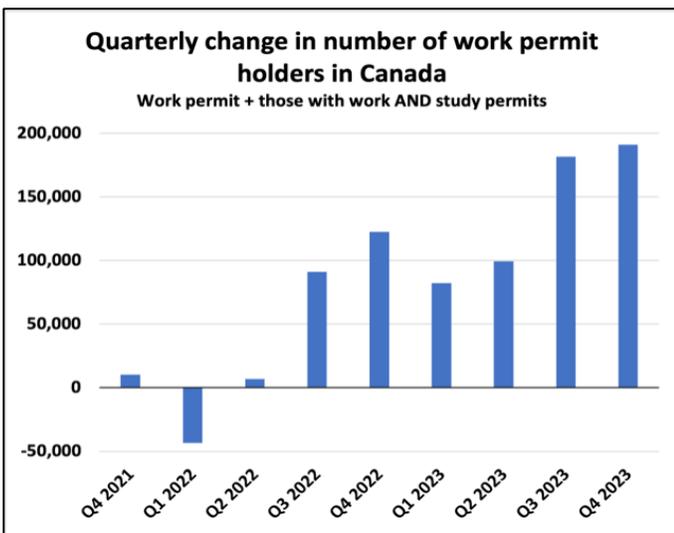
I see a couple main implications here. The first is that condo cash flows for investors will have a hard time gaining traction until the rental market tightens again. And since so much demand in the condo market comes from investors, it means we could see soft sales for condos for a while to come:



And I worry that it might be a while before the rental market tightens again. We know that Ontario will see roughly 60% fewer study permits issued this year relative to 2023:



And with the labour market now clearly softening, there's virtually no chance that we will continue to see work permit holders grow at a 190,000 QUARTERLY run rate as we've seen over the past 2 quarters:



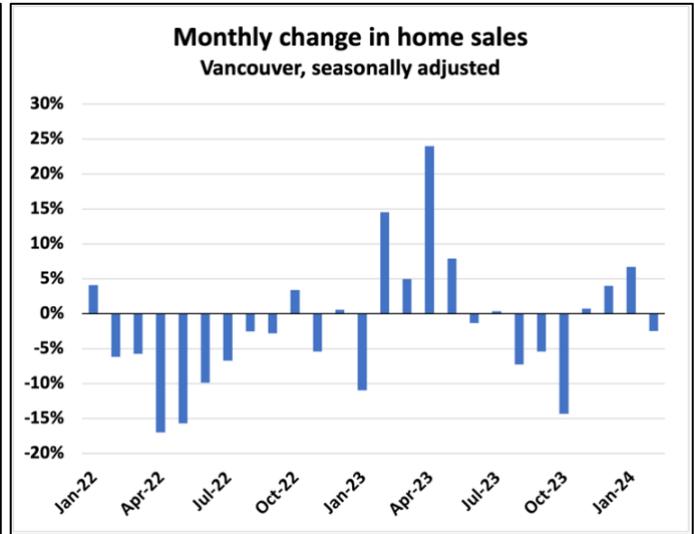
So that's a big chunk of rental demand that is set to soften. At the same time, we have 75,000 condos under construction and another 17,000 rentals in the pipeline across the metro region...both at +30-year highs. This is why I've been warning for the past year that we were set for a normalization in the rental market where things will go from scorching hot to more balanced conditions. We're now seeing this clearly in the data.

I'm less concerned that the rental market will continue to soften and I'm more concerned that some of the current rental inventory will become resale supply later this year as a soft rental market and high interest rates push supply to market. We'll see, but it's a potential vulnerability that's worth monitoring, particularly since condo inventory is already fairly high.

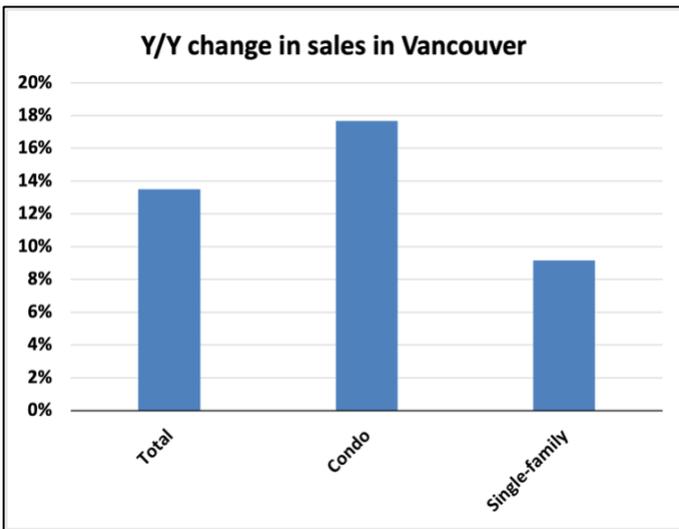
3) Vancouver sales stall in February

Demand cools slightly in February

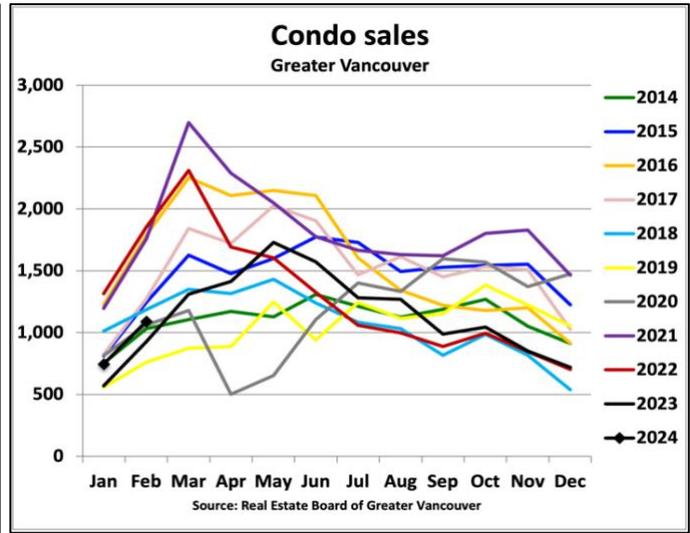
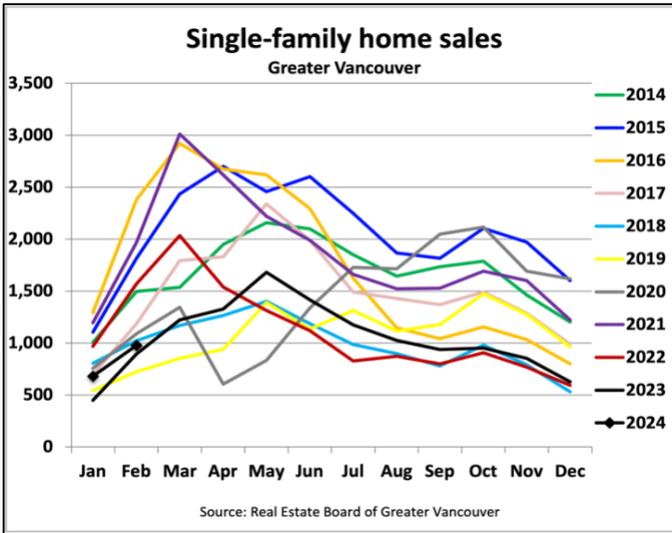
After starting the year with a bang, seasonally adjusted home sales in Vancouver pulled back slightly in February, down an estimated 2% m/m:



Still, that left sales up nearly 14% compared to last year...

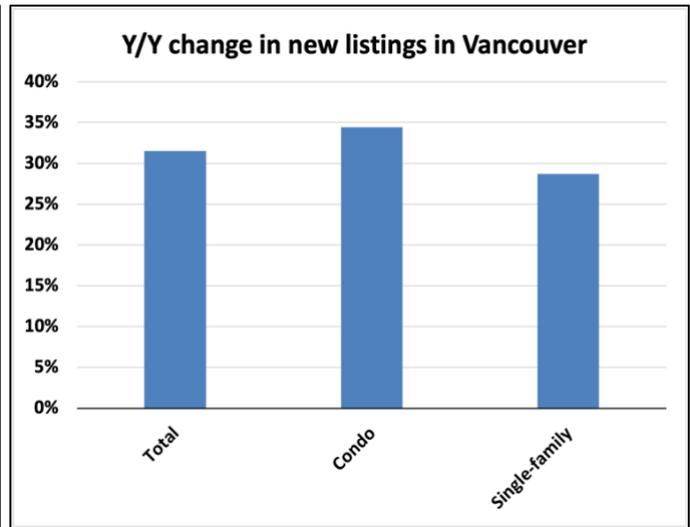
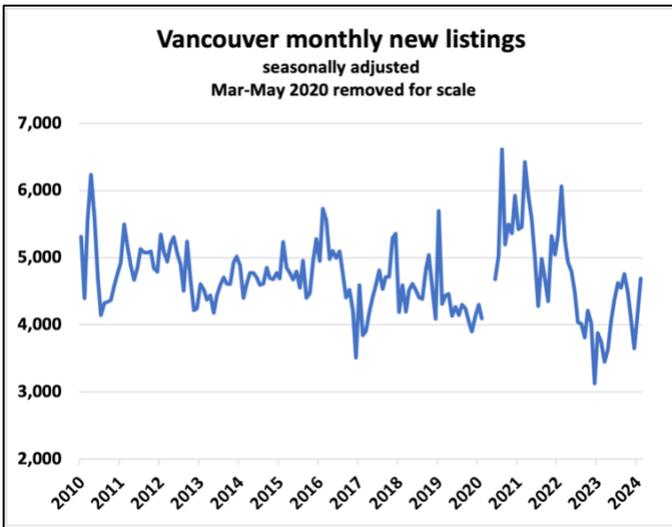


Both single-family and condo sales are up nicely off 2023 levels but remain way below normal:



New listings jump again

After surging 15% in January, seasonally adjusted new listings rose a further 12% in February and were up 32% compared to last year at this time:

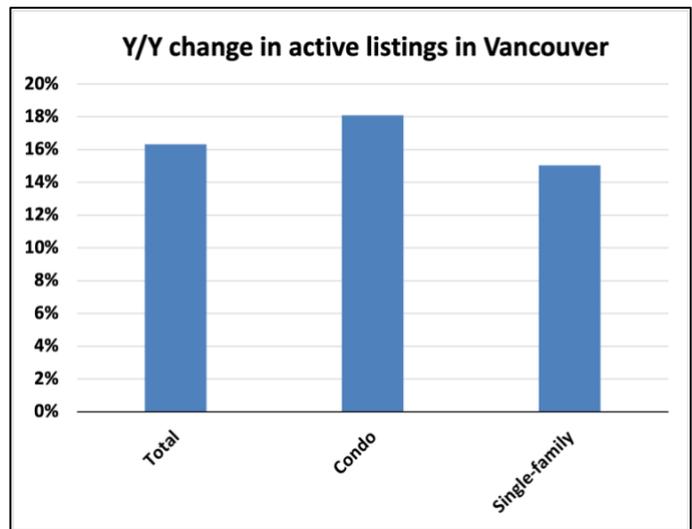
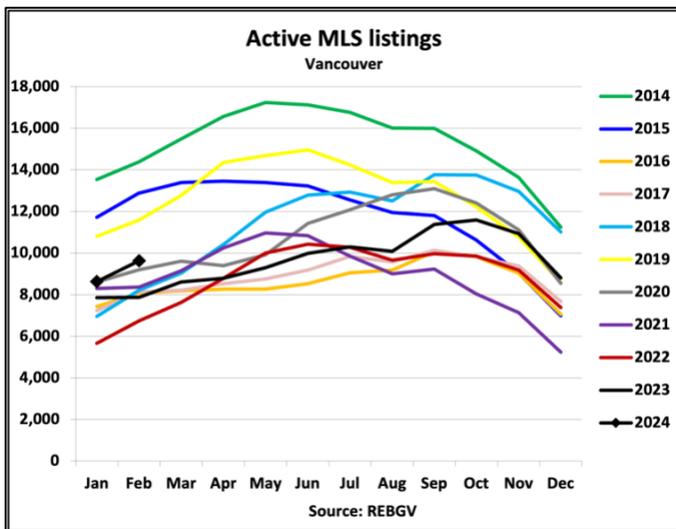


With sales down and new listings up, the market balance softened in February, with the sales-to-new listings ratio falling to 45%....the lowest level since October:

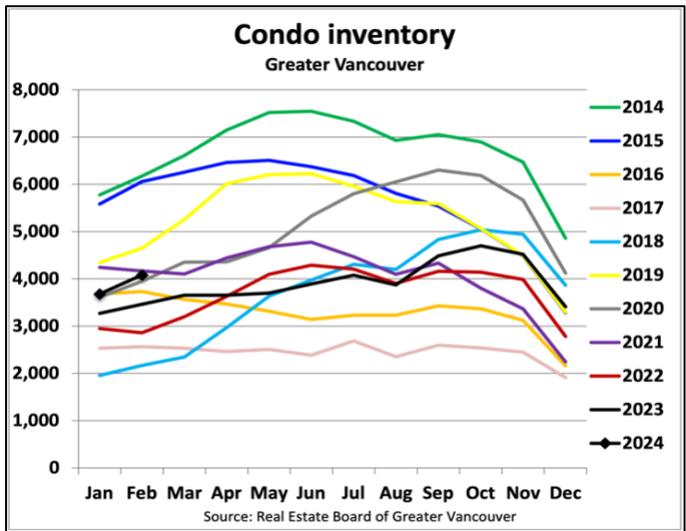
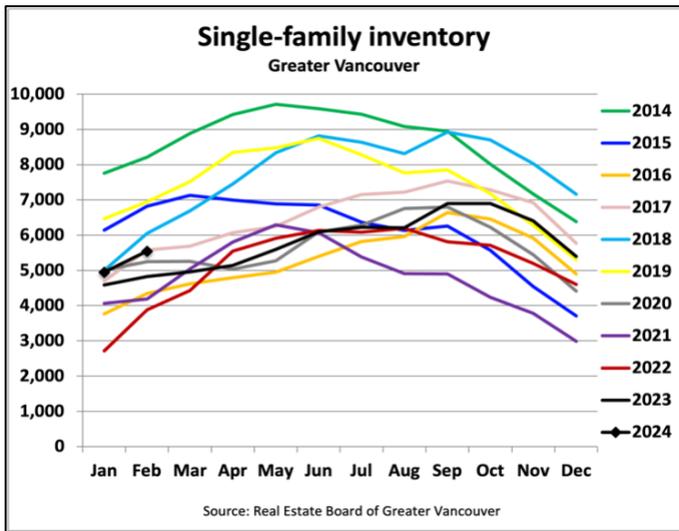


Inventory up 16% y/y

Active listings were up 16% compared to last February including a 18% increase in the condo segment:

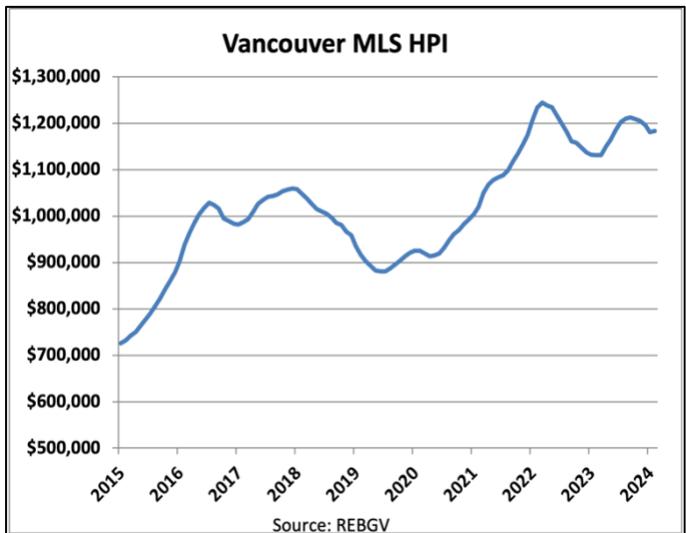
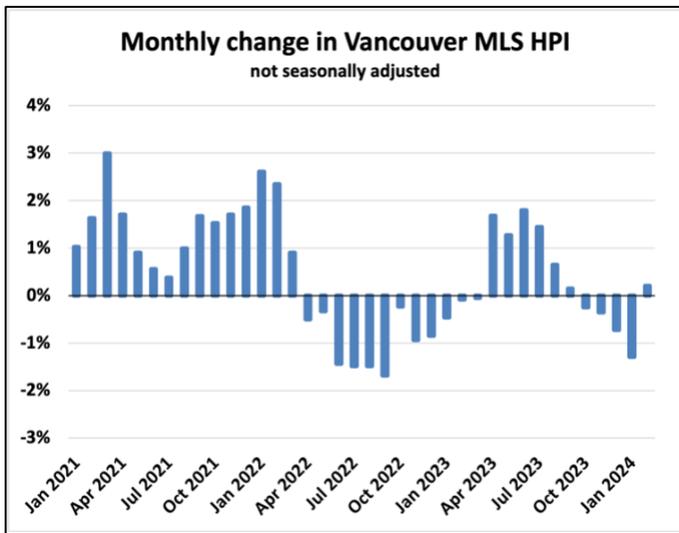


In spite of soft sales, inventory still remains at normal levels for this time of year.

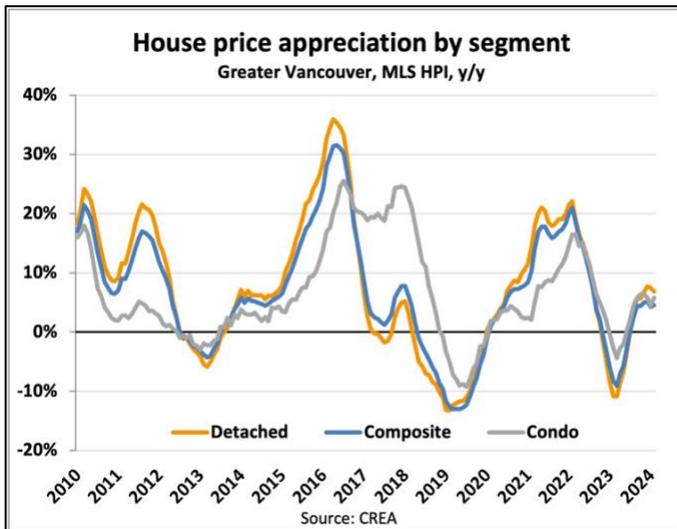


House prices rise

Vancouver ended a string of 4 consecutive months of declining prices in February, with the MLS HPI up 0.2% m/m:

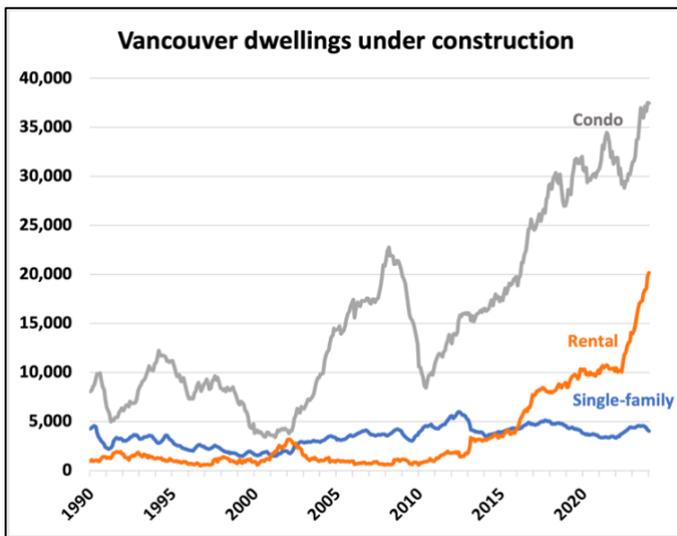


Relative to last year, prices are up 4.6% overall and 6.5% in the single-family segment:

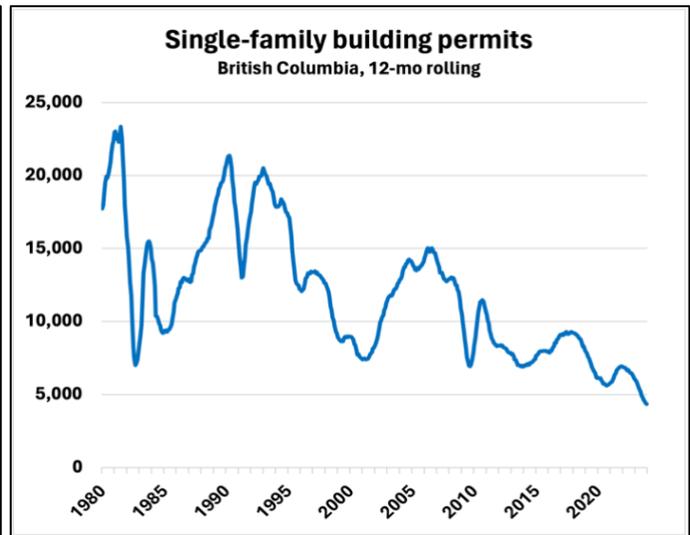


Single-family construction activity plummets

The number of dwellings being built across Vancouver rose 0.3% in January, but that was entirely due to a 1.7% increase in rental construction. The number of single-family homes being built fell another 2.3% and are now down 12% in the past 5 months:



As with Toronto, we're seeing a steep decline in single-family housing starts across metro Vancouver. Already they are approaching the 2020 lows and look set to go much lower based on the trend in permits across the province. It's difficult to overstate how concerning this is for long-term supply:

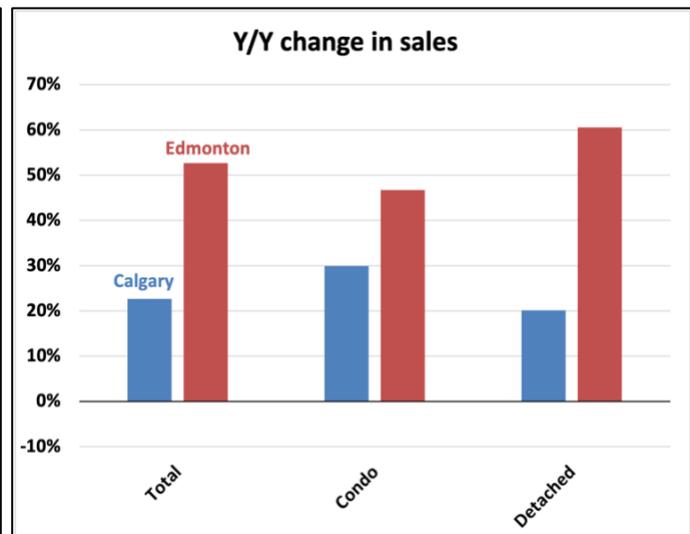
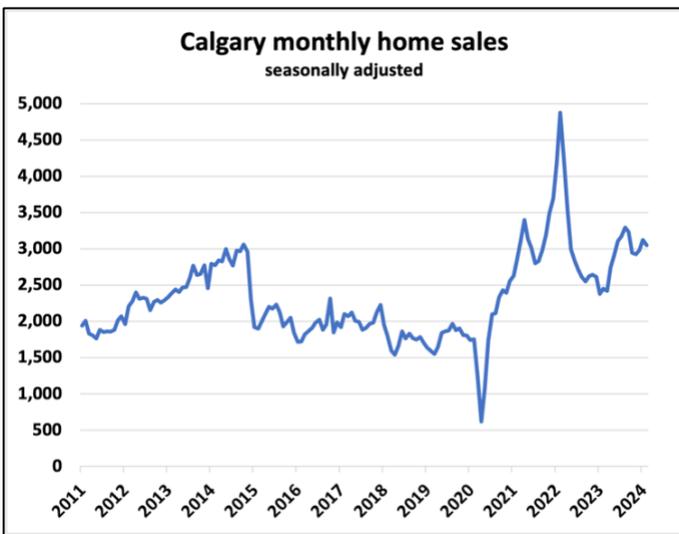


Real estate practitioners in Vancouver should be marketing this trend heavily. Yes, buyers might get a deal over the next year just due to high rates and pinched affordability, but there's clearly a hard floor under the single-family market since new supply will be very thin in coming years.

4) Alberta commentary: Is Edmonton about to boom?

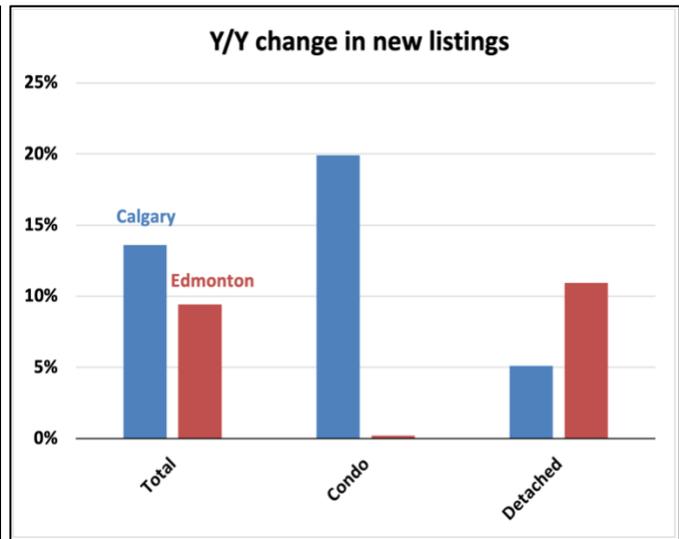
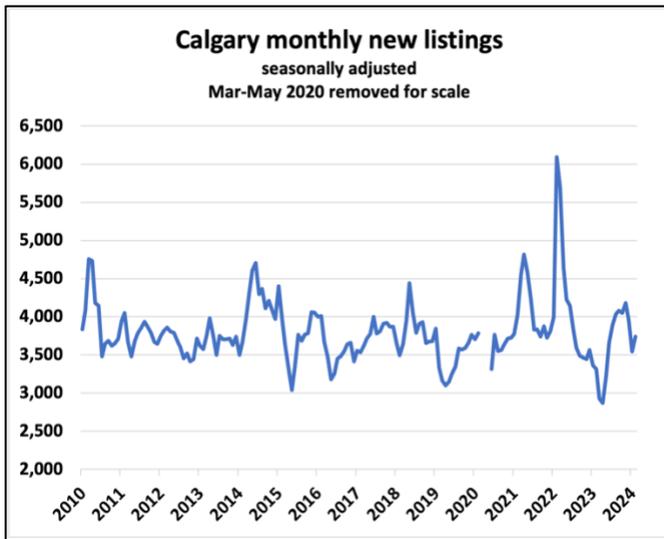
Demand surges

Things still look very good on the prairies. Yes, seasonally adjusted sales ticked lower in Calgary in February (-2.4%) but they remain at VERY strong levels overall and were up 22% y/y. **But check out Edmonton....sales up 53% y/y!!!!** What in the world?!

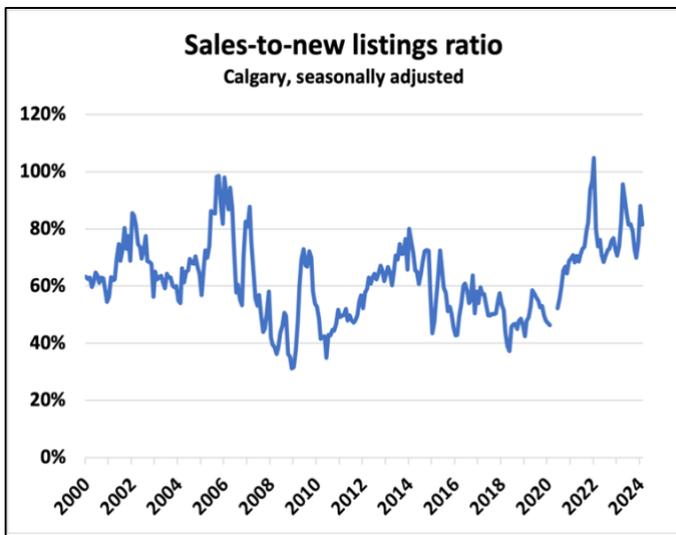


New listings still stable

Meanwhile new listings remain stable and well below normal levels across Alberta:

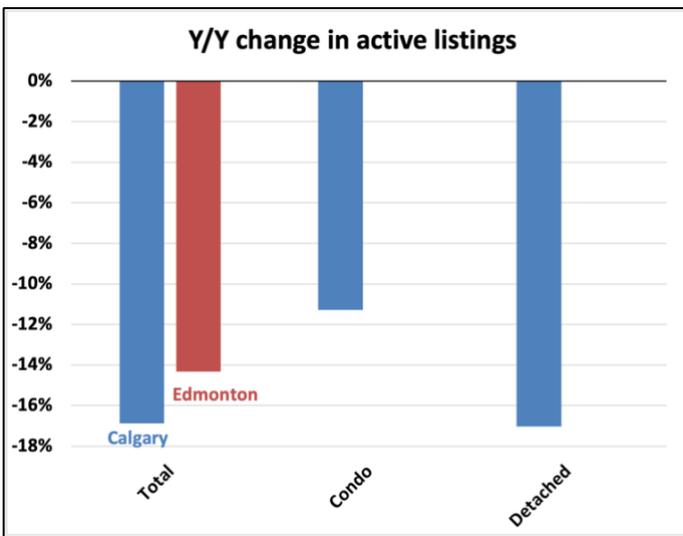
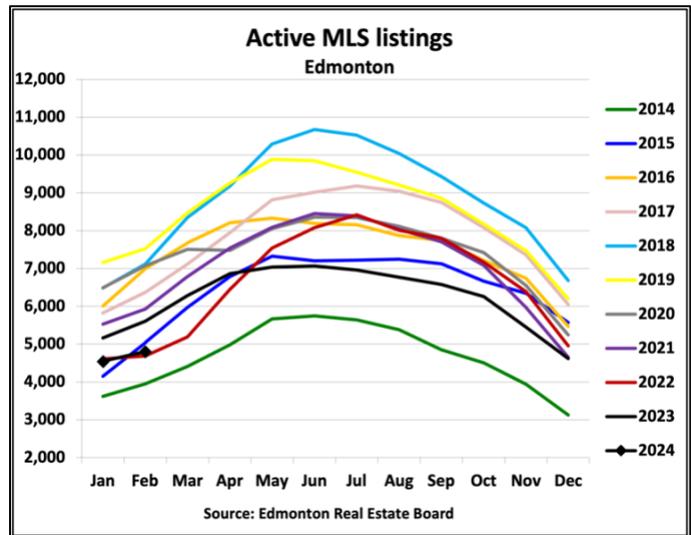
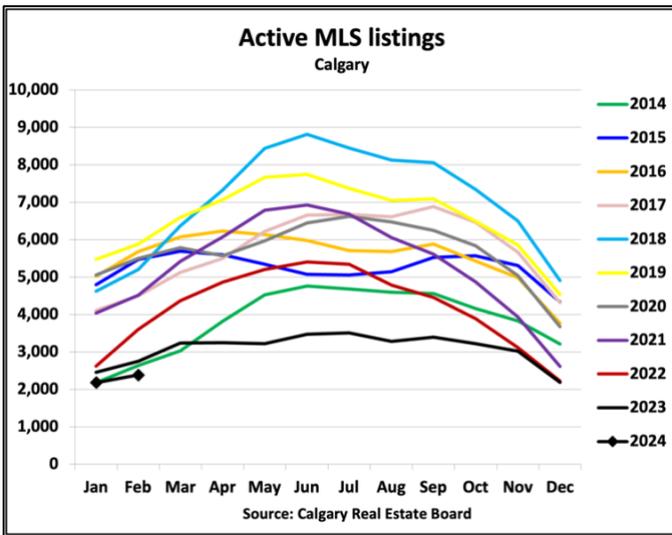


The sales-to-new listings ratio in Calgary pulled back slightly to 81%, but that's still a smoking hot market:



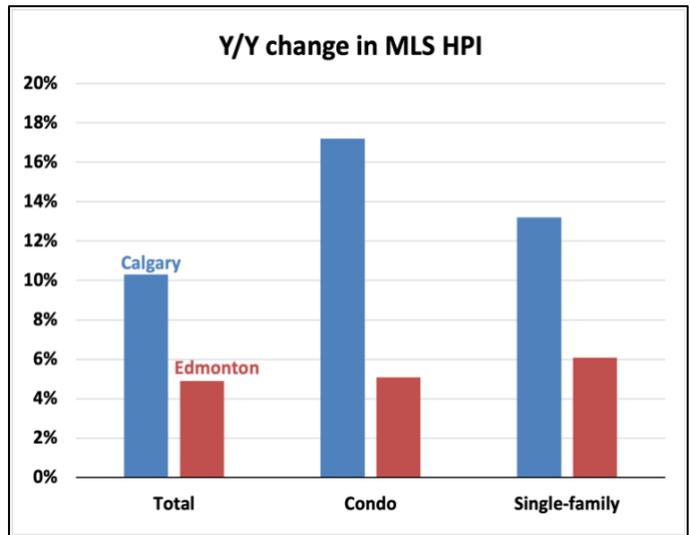
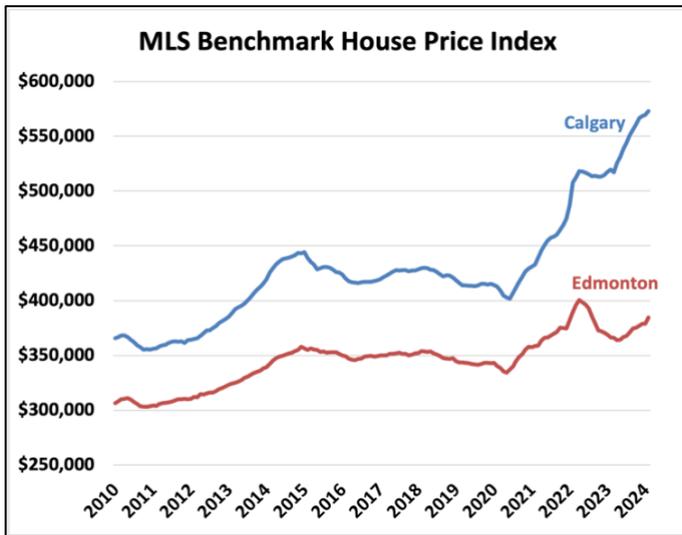
Still no inventory

Inventory is still at crisis levels in Calgary and is getting pretty close to that in Edmonton too. There's just nothing to buy:

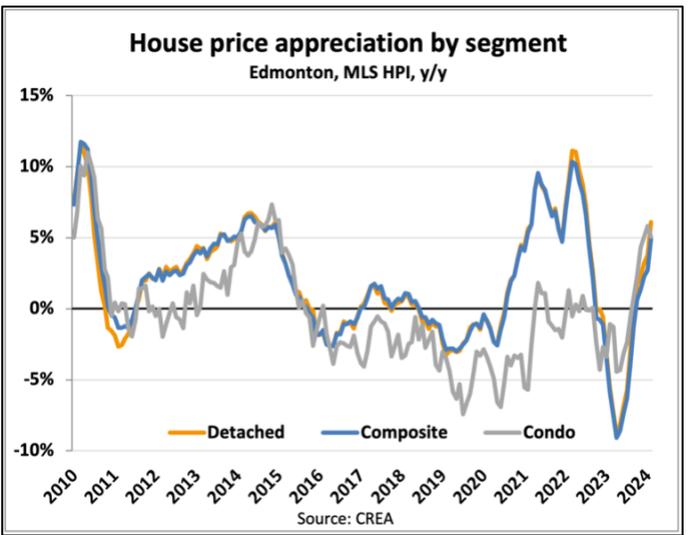
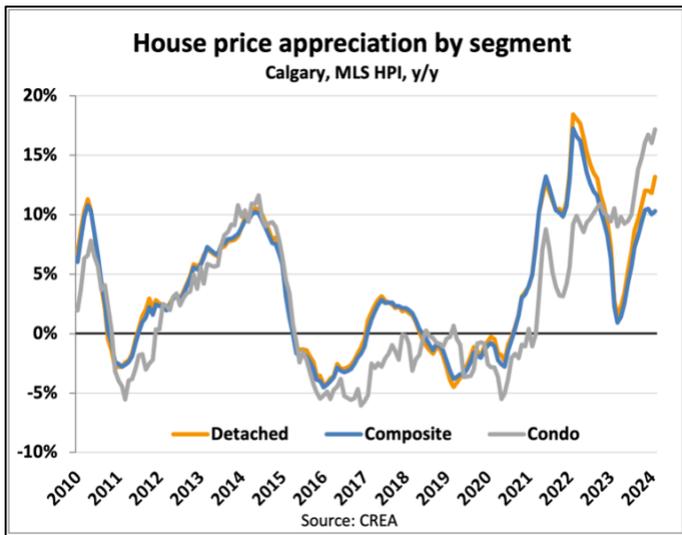


Frothy house prices

House prices continue to surge in Calgary, up over 10% y/y overall and up 17% in the condo segment...which continues to look a little frothy to me. What's more interesting is the recent sharp uptick in pricing in Edmonton in recent months which looks to be gaining momentum. How can prices not rise with sales surging the way they are?

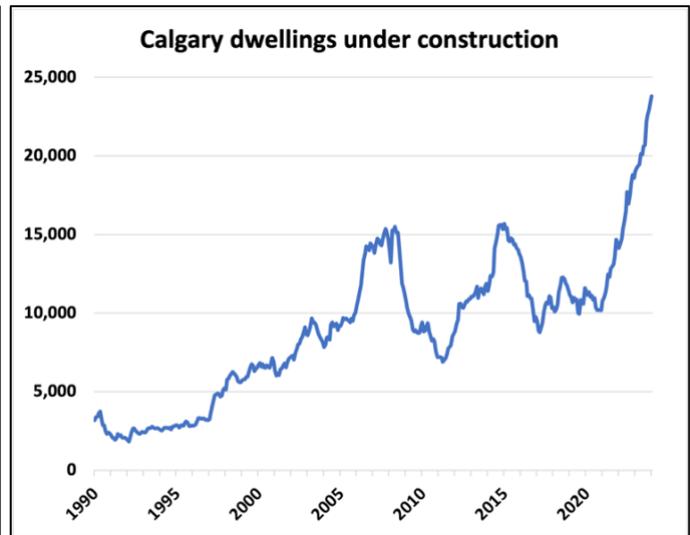
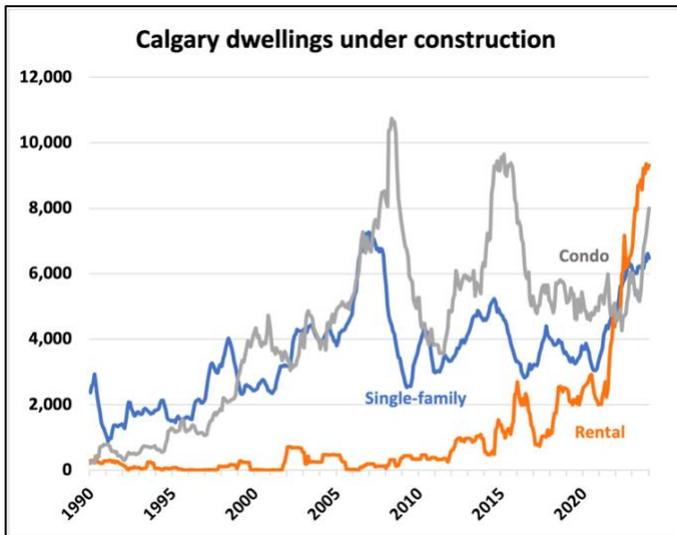


Looking at the y/y price change, we see condos in Calgary are now seeing the strongest appreciation in at least 14 years. Again...frothy is the word.

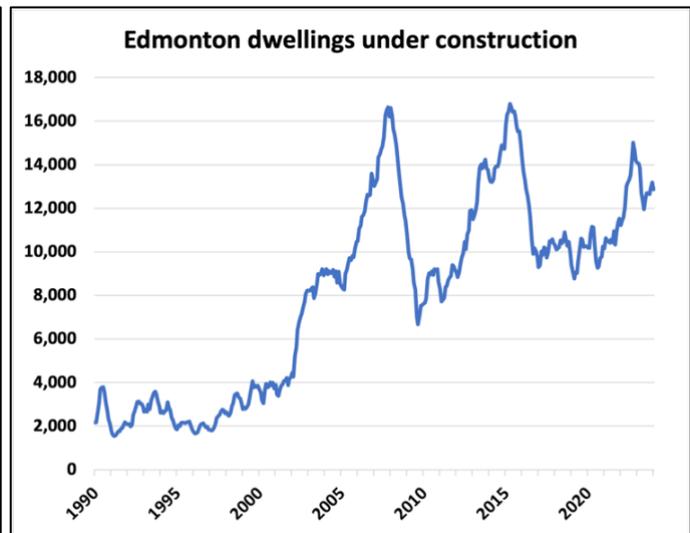
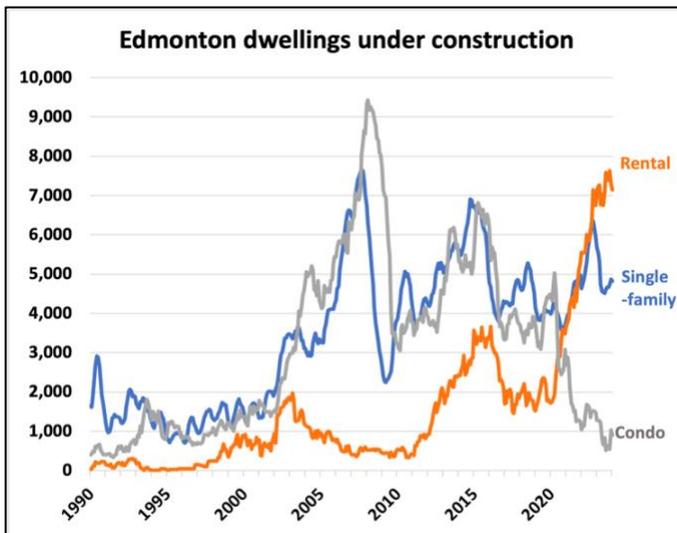


Construction activity rises again

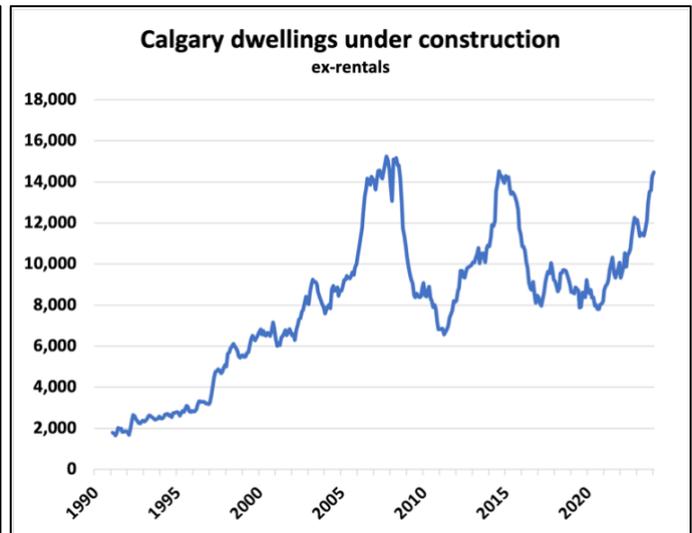
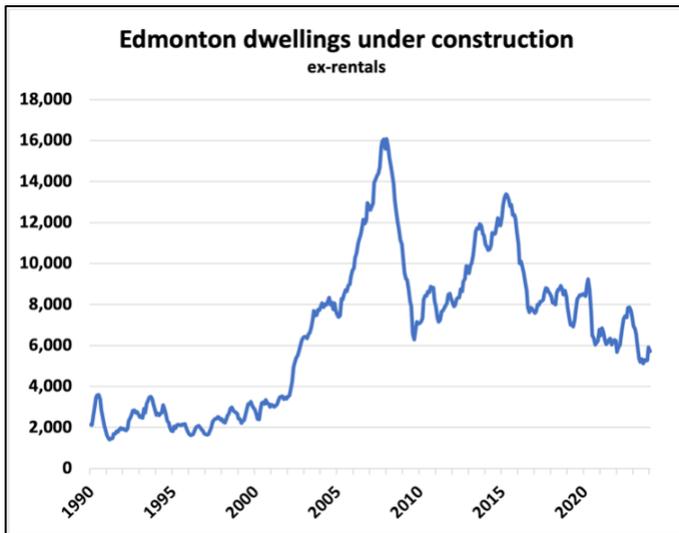
Construction activity in Calgary is really starting to pick up steam. The number of dwellings in the pipeline rose 1.3% in January led by a 4.6% jump in condo construction, and there are now 55% more condo units under construction than there were last summer. We won't see this supply imminently, but you can rest assured that when construction activity picks up this quickly, it WILL lead to a much better supplied market within a year or so.



In contrast, construction activity looks pretty benign in Edmonton right now:



... and that's particularly true if we strip out rentals. There's just nothing being built in Edmonton, in contrast with Calgary where dwellings under construction (ex-rentals) will likely break all-time highs this spring:



It certainly looks to me like Edmonton is about to pick up the baton and perhaps start outperforming Calgary for a period of time. I'm not at all bearish on Calgary, to be clear, but when you've got Edmonton home sales up 50% y/y, resale inventory down 14% y/y, and the lowest level of construction activity (ex-rentals) since the early 2000s, how do you not get excited?

Have a great day!
Ben