



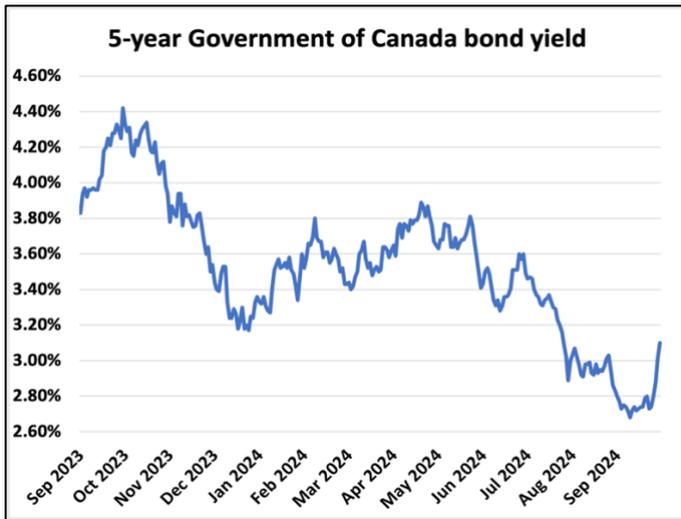
October 2024
Metro deep-dive: September data

Quick links:

- 1) **Macro commentary: Fixed rates in holding pattern for now?**
- 2) **Toronto: Sales rise, but inventory surges**
- 3) **Vancouver: Demand up but prices down**
- 4) **Calgary and Edmonton: Concerning developments in the Stampede City**

1) Macro commentary: Fixed rates in holding pattern for now?

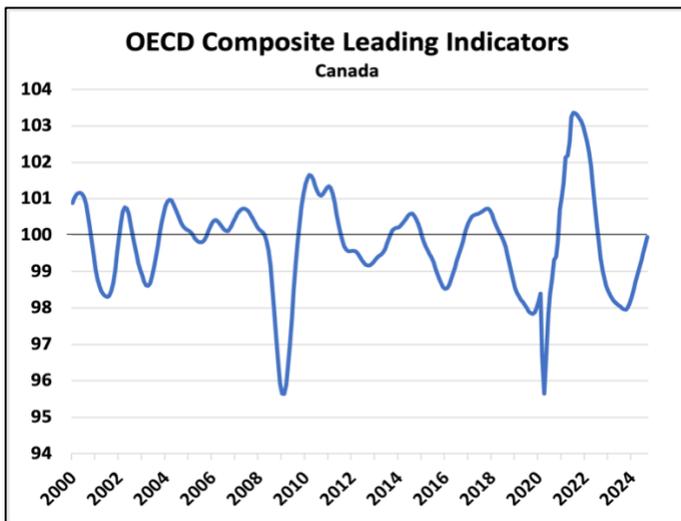
Canadian bond yields have been rising this past week on the back of stronger than expected US economic data. The bellwether 5-year yield has risen a whopping 40 bps or 0.4% off mid-September levels:



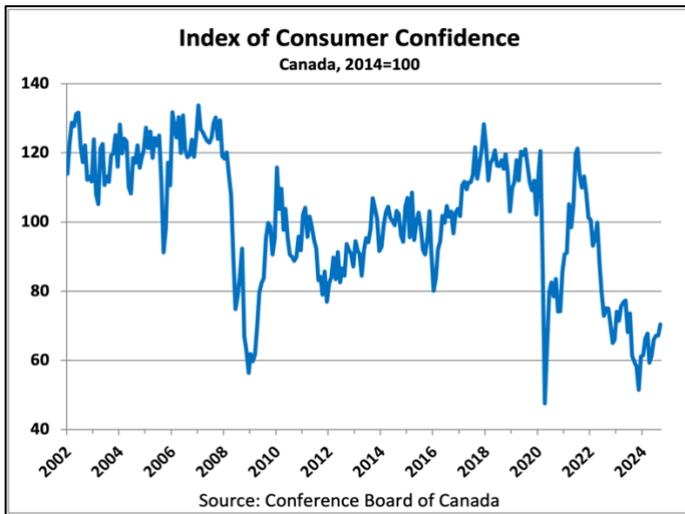
That's put a hard floor under fixed mortgage rates for the time being, and we may yet see some upward drift in rates over the next couple weeks.

The culprit here is a string of surprisingly strong US economic data and renewed fears that the US Federal Reserve may stoke inflation with aggressive rate cuts into a strong economy.

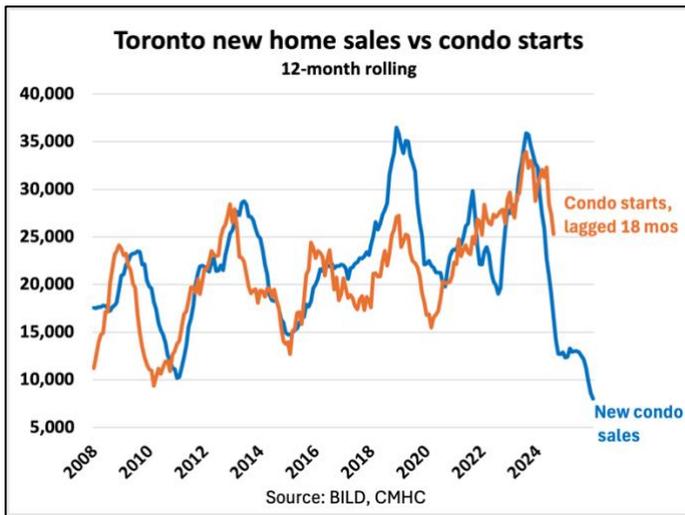
There's some signs that Canada's economy may also be perking up at the margins. The OECD's Composite Leading Indicator is nearly back to the long-term average of 100 for the first time since early 2022. Once it pushes much above that, it's historically been a good signal that the economy will ramp up 6-12 months down the road:



But here I would exercise some caution. This index has not been a good predictor of economic activity since coming out of COVID. It draws on a number of economic data points, including construction activity and soft data like consumer confidence. The problem with those is that confidence data has been disconnected from the underlying economy since coming out of the pandemic. Case in point, it hit the second lowest reading on record in 2023....and there was no recession associated with it:

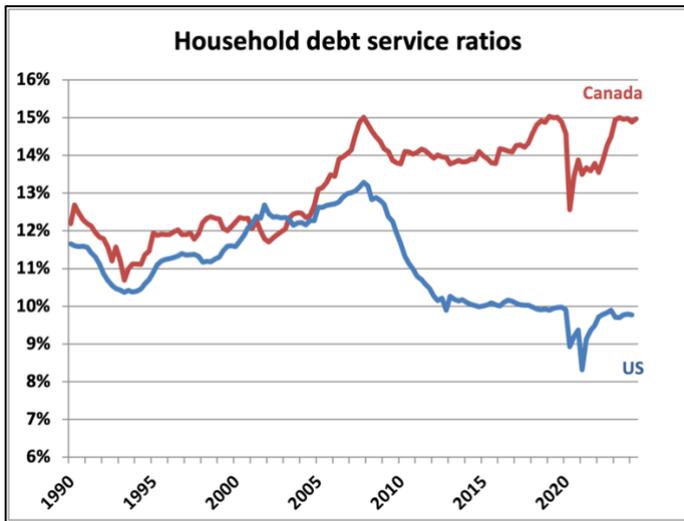


I would also suggest that construction activity right now is a massive head fake. Housing starts are no longer a leading indicator. Rather, they represent pre-sales from 2 years ago. We know that condo activity is only beginning to roll over, and we saw that in last month's surprisingly soft housing starts data where condo starts tumbled 50% y/y nationally. It has a long way to go to realign with new home sales, which always lead construction activity:



So I'm a little less convinced that the leading indicators are necessarily as solid as they used to be. They gave a false recession signal from 2022 to the middle of last year. Are they doing the same thing in reverse now?

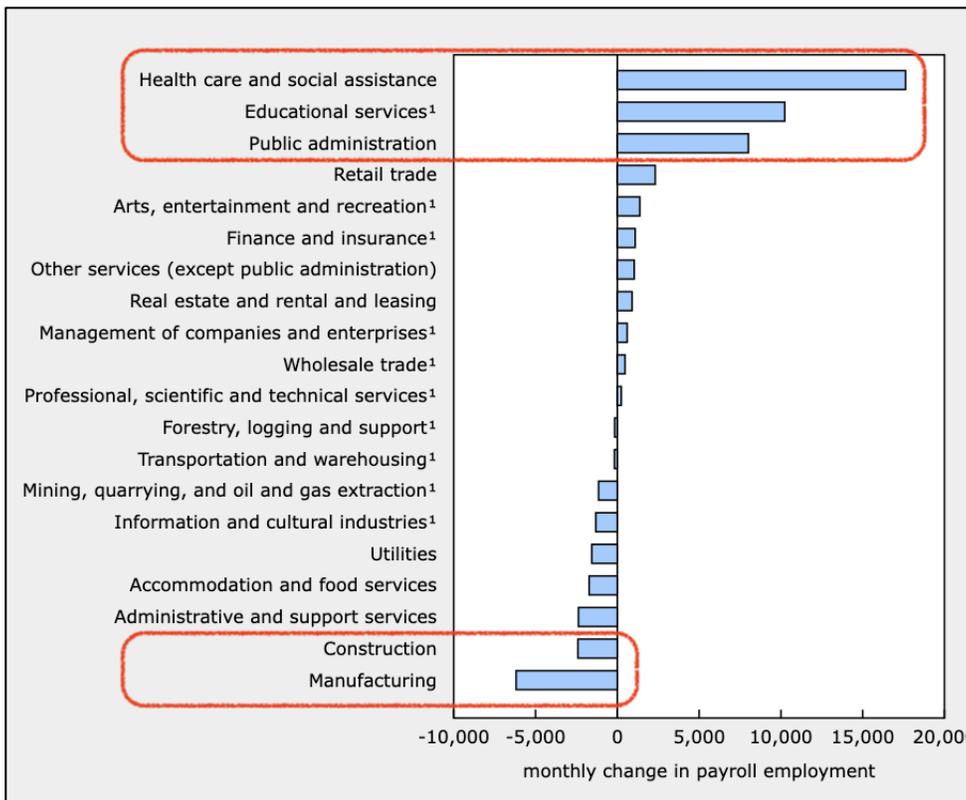
I think this uptick in bond yields is much more a reflection of stronger US data, and that raises a concern I've written about previously, namely that Canada's interest rate sensitivity is MUCH higher than in the US, and we NEED much lower rates much sooner than they do. Consider the record gap in our respective household debt service ratios as just one illustrative data point:



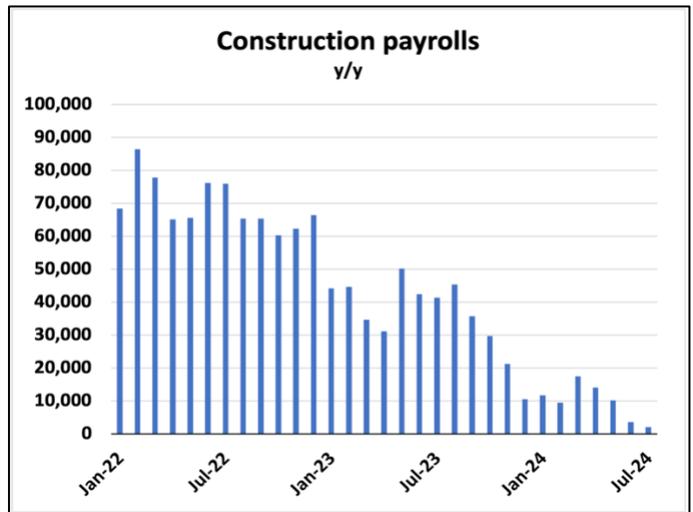
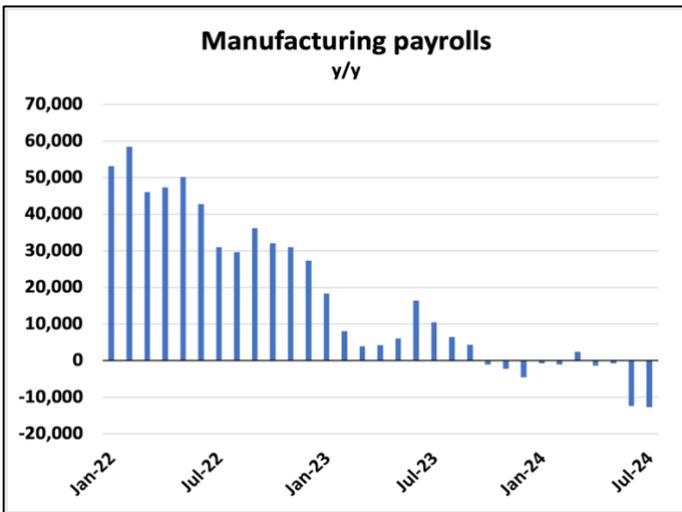
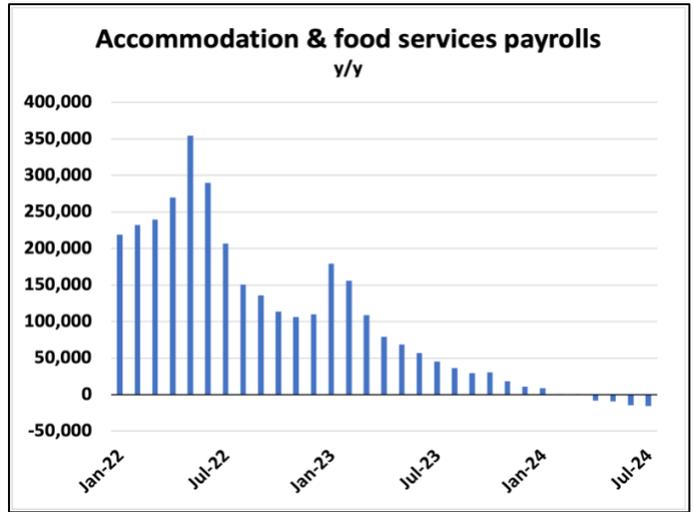
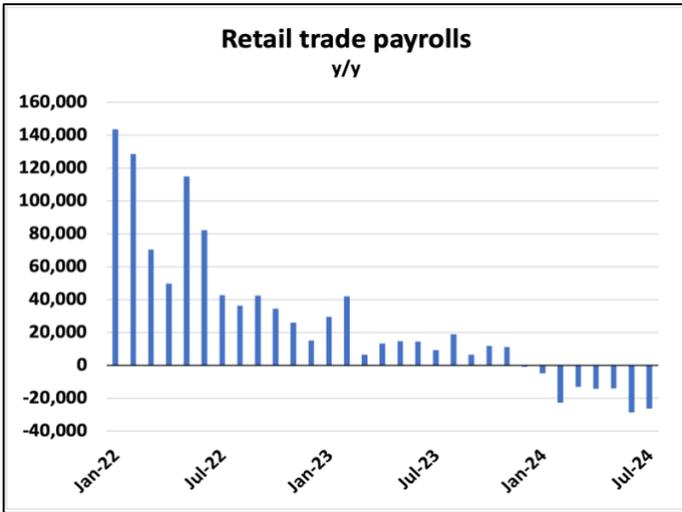
Canada NEEDS lower rates, and we're still on a path to get there even if the US is not. What this means, as I've written previously, is that the Bank of Canada will have to diverge from the US Fed, and the relief valve will be the Canadian dollar. I still expect the Loonie to hit record lows against the US dollar before this cycle is over.

If there's any doubt that these rates are still causing economic problems, consider the payroll data from last week.

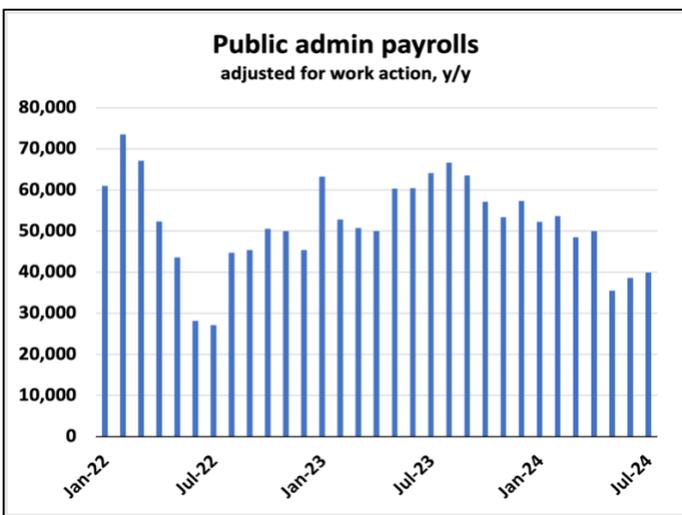
Headline payroll employment for July came in at +33k m/m following a 23k decline in June. But look at where all the gains came from once again:



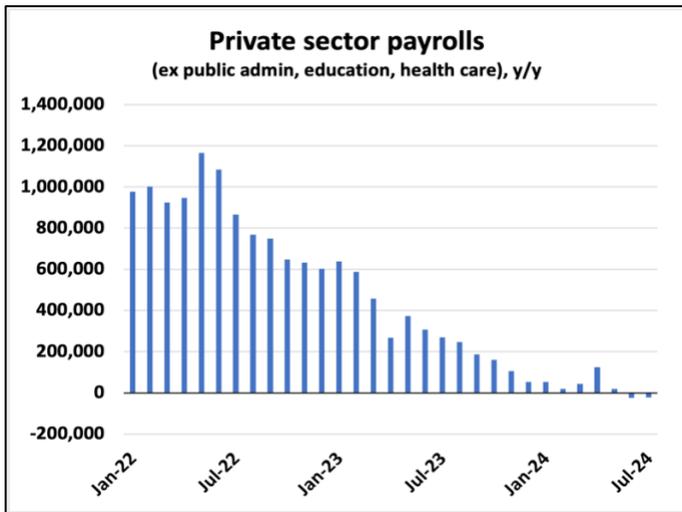
It's quite the dichotomy when you look at the y/y trend in some key cyclical industries...



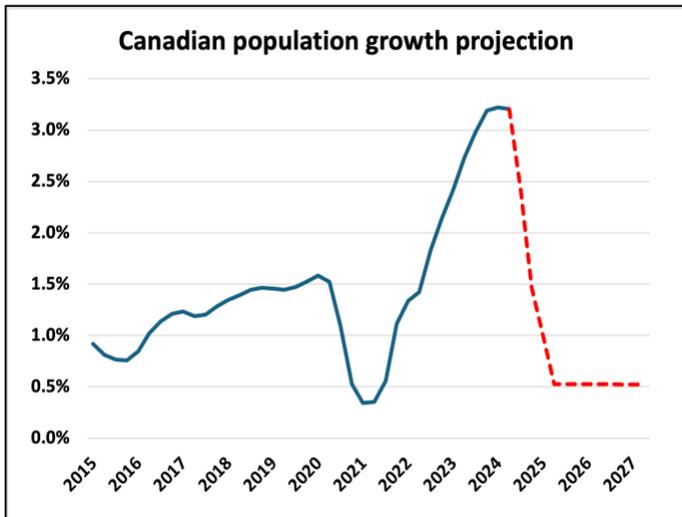
...and then compare them to public administration:



That's just public admin. Add in education and healthcare, and it's the entirety of the payroll gains over the past year. Private payrolls are actually down 22k y/y. Outside of the pandemic, you have to go back to 2010 for the last time that happened.



How many of those education and health care hires are directly related to our overrun schools and hospitals as a result of our absurd population growth? And what does that trend look like if the feds manage to successfully shrink the non-permanent resident cohort and force population growth down from 3% currently to just 0.6% at some point next year?



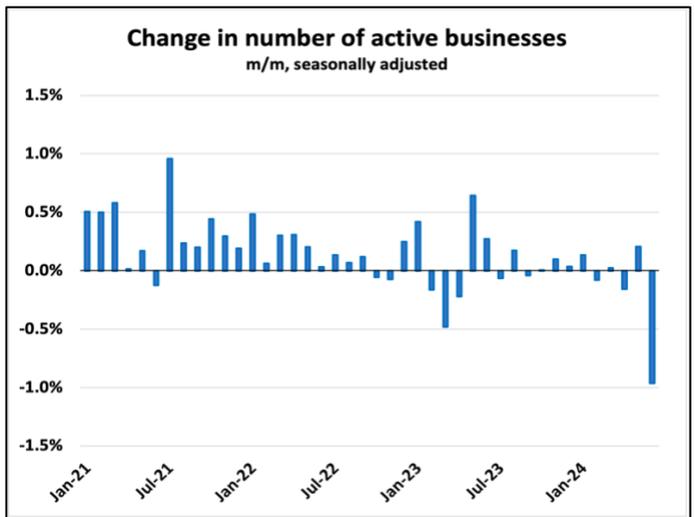
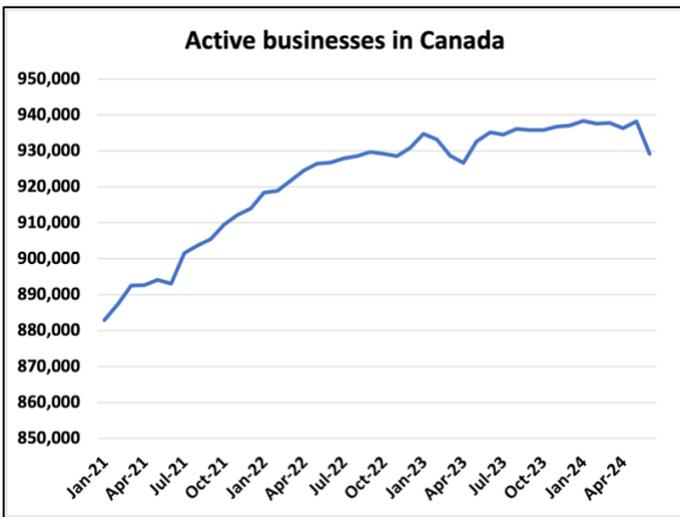
Further confirming the soft labour market was a massive 4.1% m/m decline in job vacancies in July. They're now down 20% in the past 5 months and are well below levels seen at the onset of COVID.



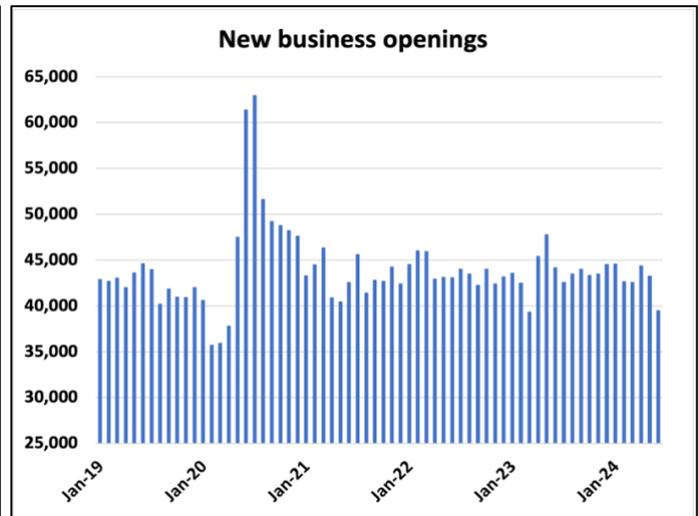
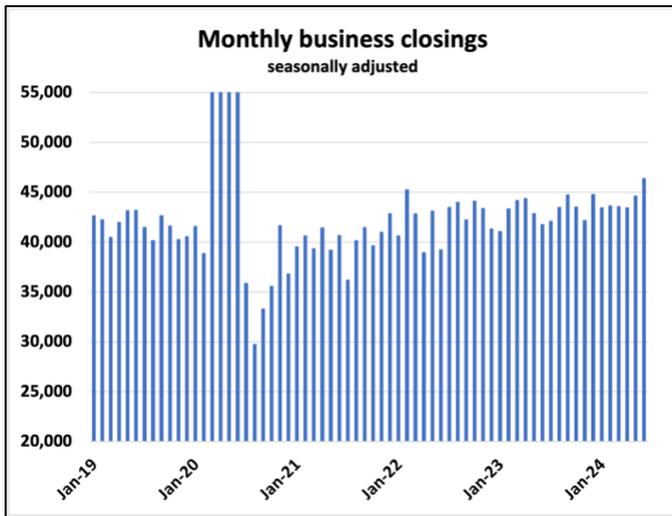
It's not surprising that private sector employment has been so weak when we look at the state of Canadian businesses. The latest business count data showed the sharpest monthly decline in active businesses across the country since the pandemic lockdowns, down 1% m/m.

From Stats Canada:

The increase in business sector closures was driven by construction (+643 closures compared with May; a 20.7% contribution to the increase in business sector closures).



You could blame the trend partly on the lagged effect of pandemic benefit repayments earlier this year, but note in the data below that it's not just that closings have hit the highest levels since the pandemic, but new openings also slumped to levels last seen in 2020:



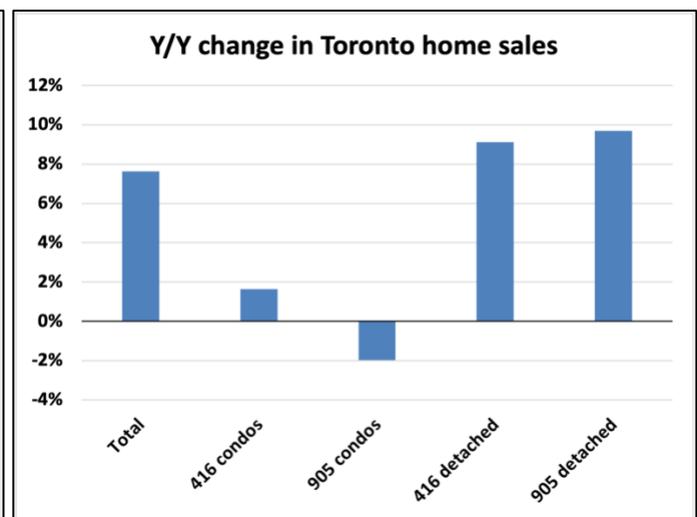
I should note that this is a new, experimental data set from Stats Canada, and it is subject to significant revisions as they fine tune the data collection process. I wouldn't read too much into any one monthly data print, but in this case it largely confirms what we're seeing in the payroll data as well.

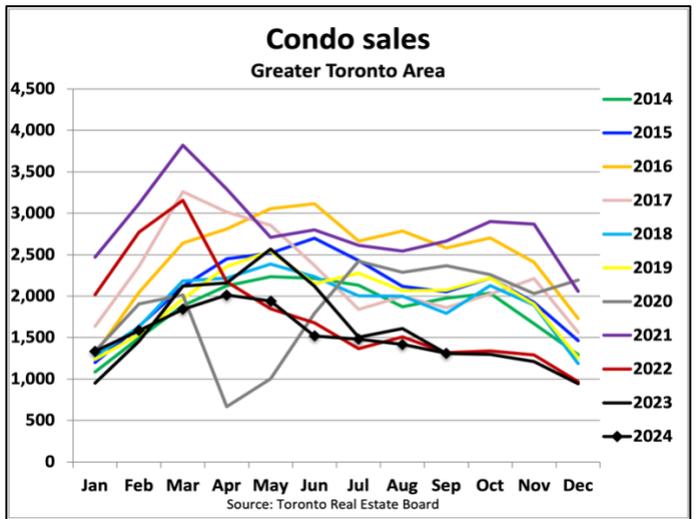
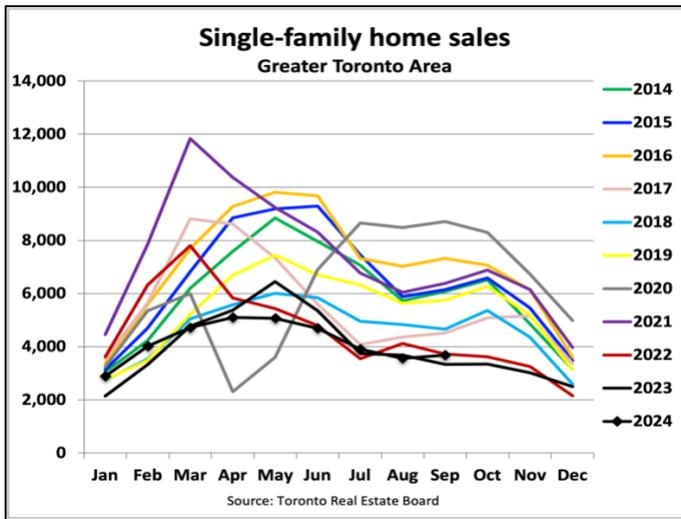
All that to say, yes rates have found a floor for the time being, but they won't stay here. They will likely soon resume their downward march as it once again becomes obvious that interest rates at these levels do not work for Canada's highly leveraged economy.

2) Toronto: Sales rise, but inventory surges

Sales on the rise

Declining interest rates and improving consumer confidence saw seasonally adjusted Toronto home sales rise 3.3% in September, led by sharp increases in the detached segment across the metro region:

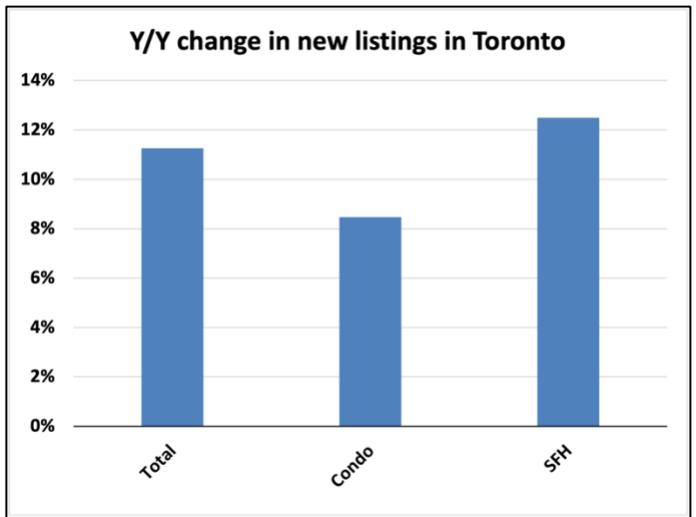
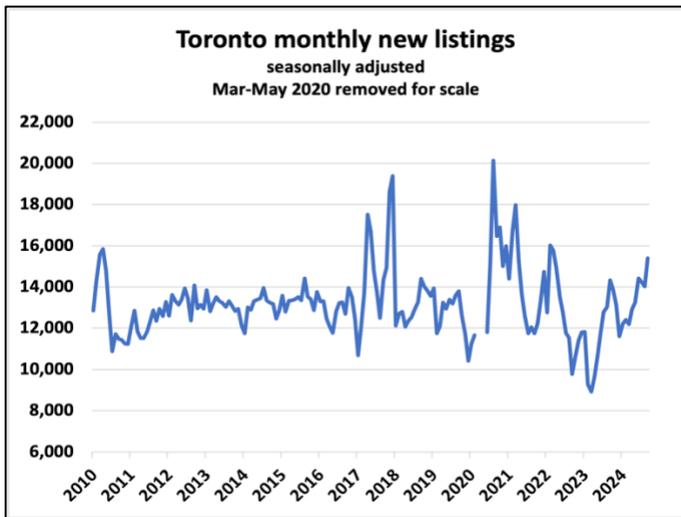




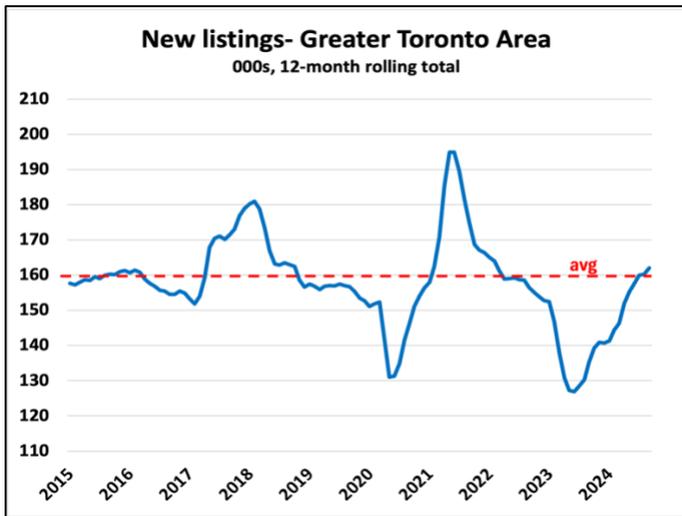
I wrote previously that we should likely expect a 10-20% increase in home sales off the summer lows through the remainder of the year, and I still think that's the likely path for sales over the next few months.

Supply surges

The bigger story was the surge in new listings seen across the country. In Toronto they rose 9.8% m/m and came in at the second highest levels of any August going back 20 years....next only to 2020.

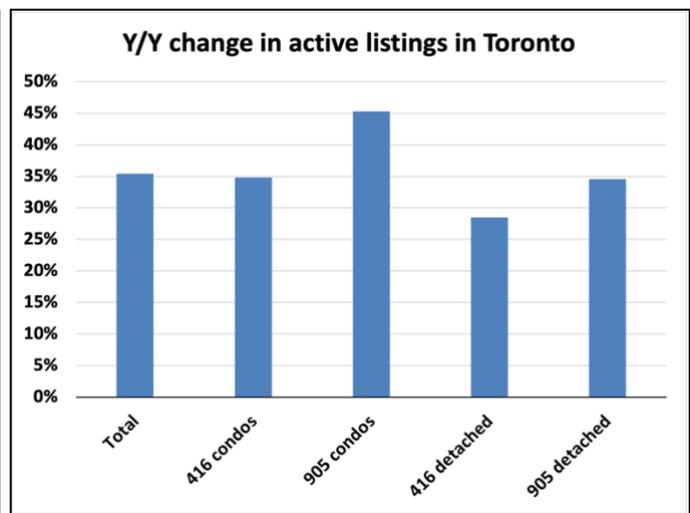
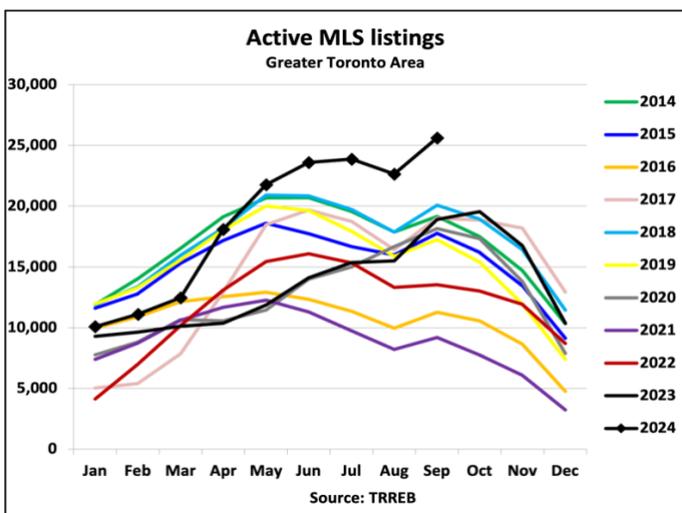


Expect this to continue into next year. New listings have a strong mean-reverting tendency, and we're only now back to trend after nearly 2 years at exceptionally low levels. The pendulum will very likely continue to swing higher over most of the next year:

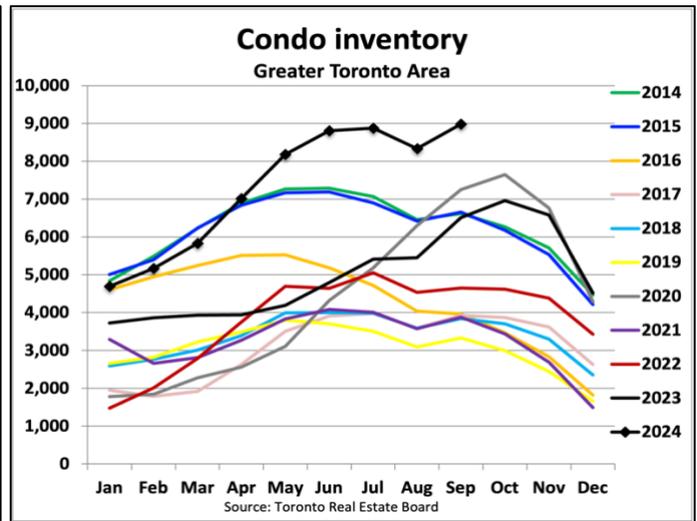
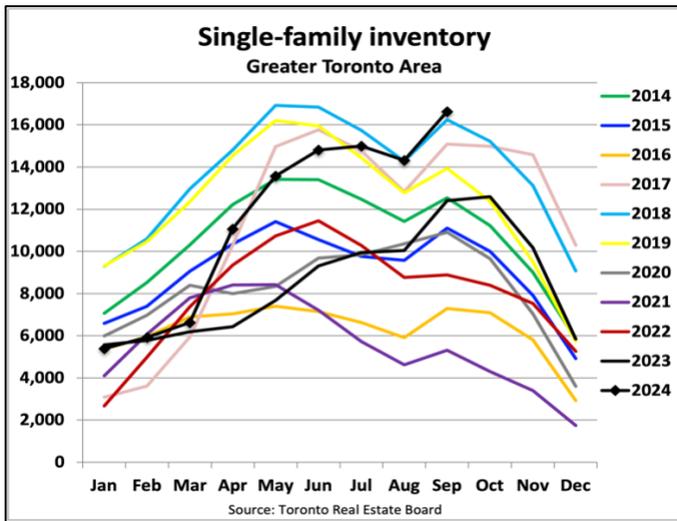


Active listings hit highest level since 2008

With new supply outpacing demand, we continue to see an accumulation in standing inventory in major metros, most notably Toronto where we haven't had this many listings since the Financial Crisis



It should be noted that it's not JUST condos driving the surge in resale supply. Yes, that segment is at all-time highs in Toronto, but the single-family segment also has the highest level of inventory in 15 years:

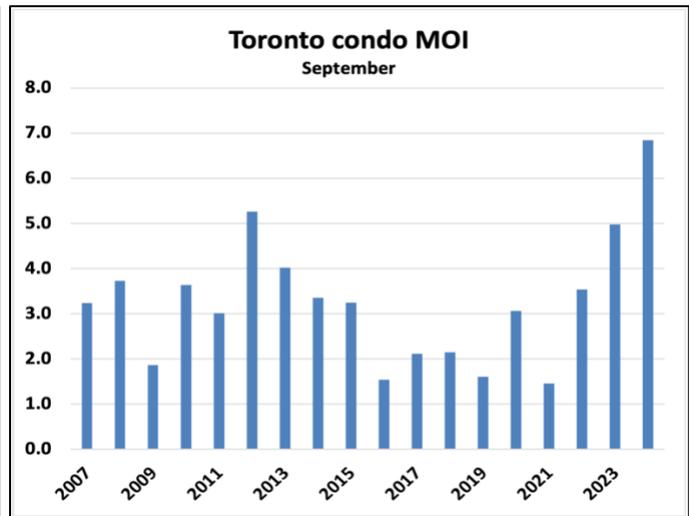
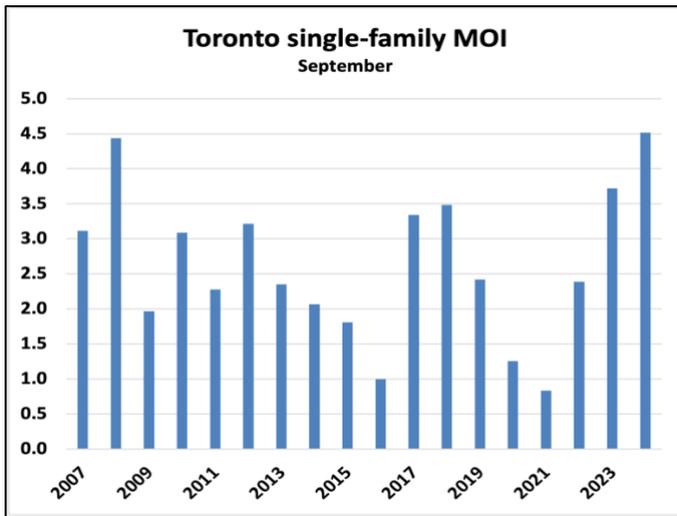


Market balance deteriorates

With supply rising faster than demand, we saw another decline in the sales-to-new listings ratio:

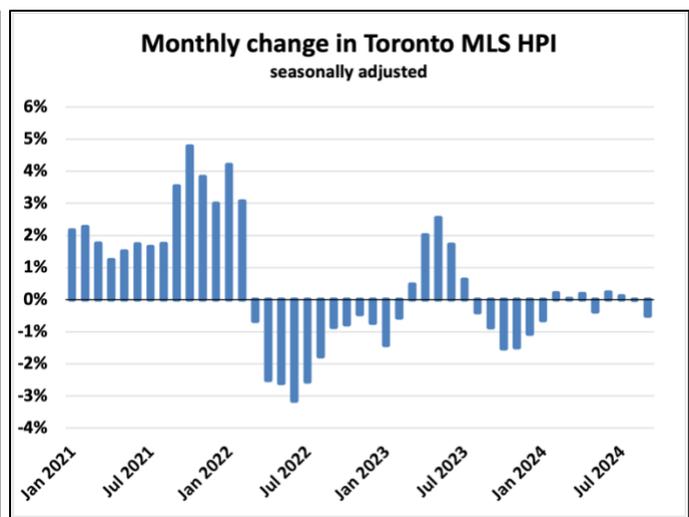
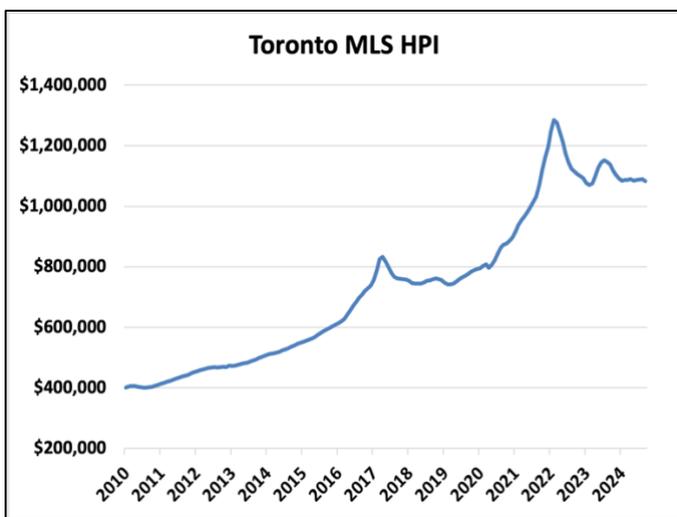


Meanwhile, months of inventory hit 20-year highs for both the single-family and condo segments in September:

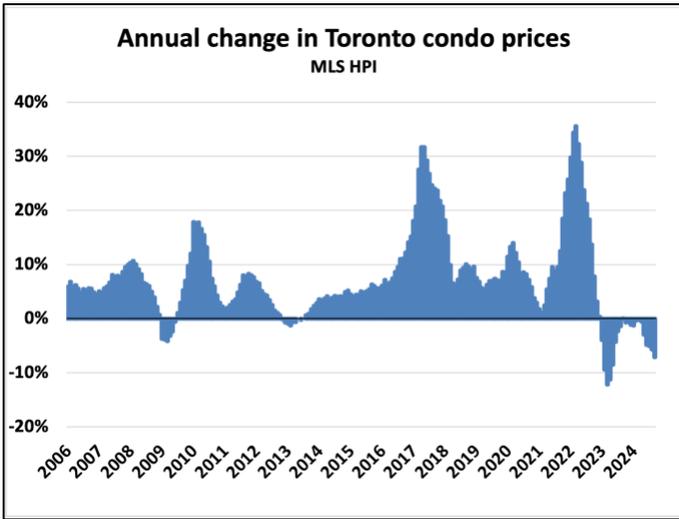


Prices decline

With the market balance tilting more towards buyers, the seasonally adjusted MLS House Price Index posted a 0.5% monthly decline in September and saw a downward revision to the August numbers to boot:



Prices are down 4.5% y/y but down 7.1% in the condo segment where declines are really beginning to accelerate:



Rental market remains soft, but condo cash flows are improving

We're starting to see more and more chatter of a softening rental market. Below is from an Ontario landlord Facebook group:

Top contributor · September 21 at 6:45 AM · 🌐

My units have been in the rental market for the past 2 months going to the third month now. I am finding it very difficult to find decent tenants. Units are in perfect condition as I recently completed renovations. I have lowered the price twice to ensure that the prices are comparable to other rentals in the area.

Ad was posted on almost every rental site. It is a Main floor 3 bedroom house & 1 bedroom basement apartment located in Brampton. My last experience with my professional tenants was horrible and I had to evict them for non payment. I lost close to 25K.

Any suggestions of what to do next?

👍 🤔 🙄 12 118 comments

Top contributor
Traffic is slow for sure. Not very many are moving. The job market and economy is not great, as a result tenants are staying where they are. There is a price for everything, and ultimately it's the driving factor. My recent rental took about 45 days with an agent and scaled price back to 2022. Just to give you an idea.

1w Like Reply 6 👍

Top contributor
The rental market is slow now but be patient to find the right tenant. The wrong tenant will cost you even more headaches and money. I've waited 6 months to get a good tenant. You may have to lower your price more.

1w Like Reply 5 👍

Top contributor
It took us months to find someone. It's slow out there.

Top contributor
I'm also in brampton and having the same issue even with an agent. My unit has been on the market for 2 months now and iv lowered the price with only 3 hits.

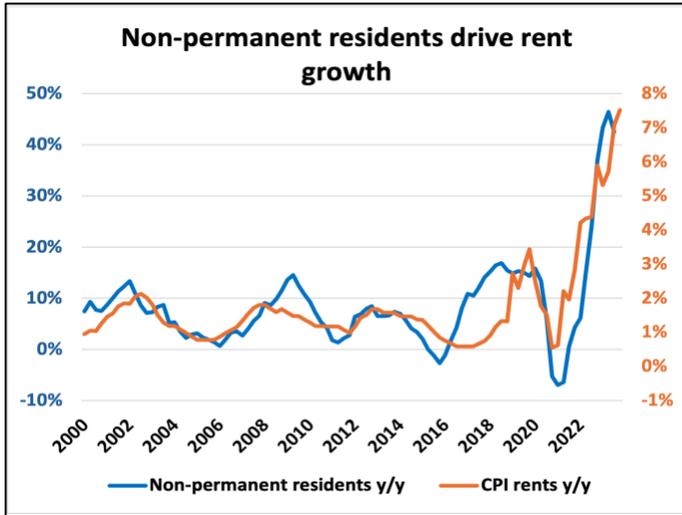
1w Like Reply

Top contributor
It's kind of slow , maybe you are too picky about the potential tenants?

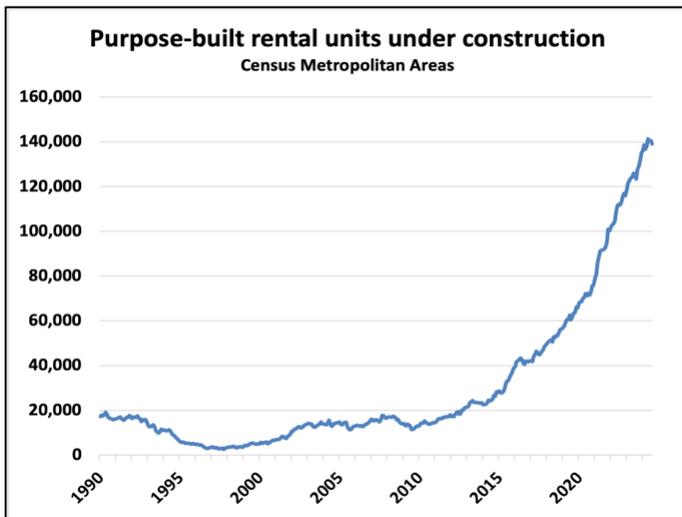
1w Like Reply

Top contributor
the market is definitely weaker this year, you get responses but the candidates are of lower quality generally. Id rather units sit empty than take a chance on any less than ideal tenant, because the LTB and lawmakers have failed their jobs. Be patient... **See more**

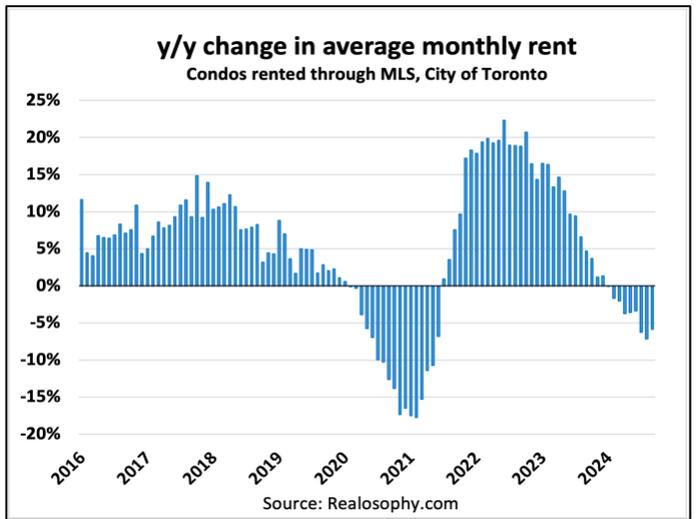
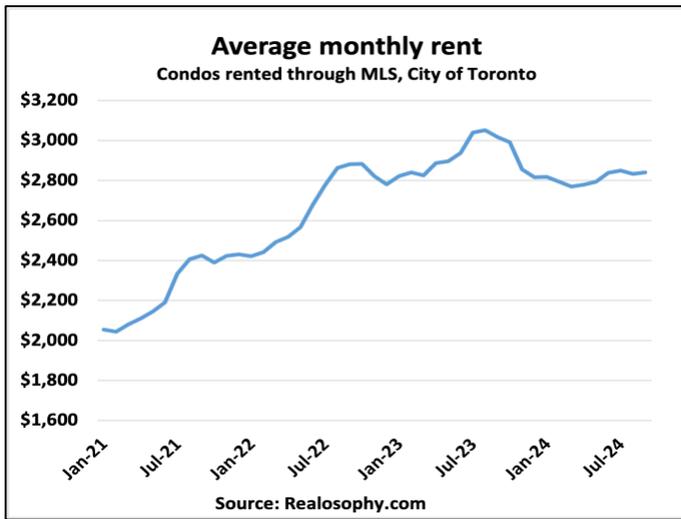
I expect we'll see a material softening in the rental market over the next year or two IF the feds manage to achieve their stated goal of bringing the non-permanent resident (NPR) cohort back to 5% of the population from 7.2% currently...a goal that would require a quarter million reduction in this cohort annually over the next 3 years. The correlation between NPR growth and rents is pretty clear:



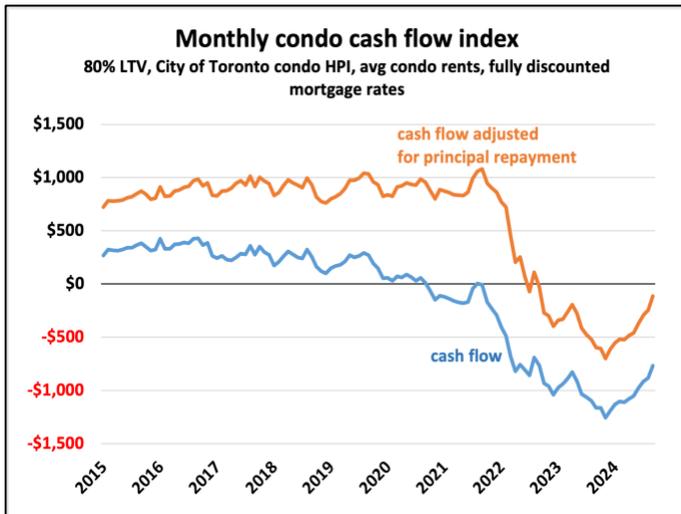
We also have 140,000 purpose-built rental units in the construction pipeline...equivalent to 6% of the existing rental housing stock. Add in another 160,000 condo units, half of which historically enter the rental pool at completion, and we're facing a historic amount of supply at a time when rental demand could actually temporarily contract.



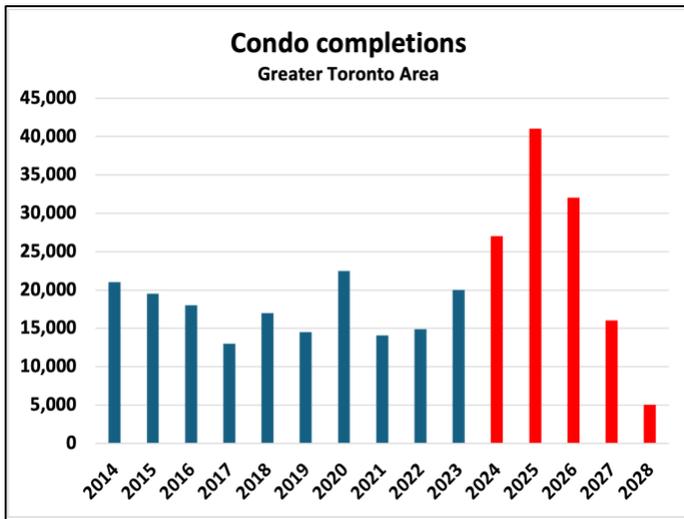
Already, average condo rents in the City of Toronto as of September are down 7% y/y and flat from mid-2022 levels:



That will keep investors on the sidelines for now, but I would note that with condo prices and interest rates back on the decline, investors are almost back to break-even on new purchases financed at 80% LTV once we add back principal repayment. I'm no fan of this math, but I know many investors who are.



I think the prospects of record completions over the next 24 months into an already-saturated resale market, and the very real possibility of softening rental demand should keep any sensible investor on the sideline for now:



As I've said previously, the big buying opportunity will be ahead of 2027-2028 when new completions will come in at 20-year lows and drive a massive tightening in resale supply. THAT's when the condo market will once again catch fire, but timing the inflection will be tricky. I think there's probably more downside to come before we start seeing really compelling deals.

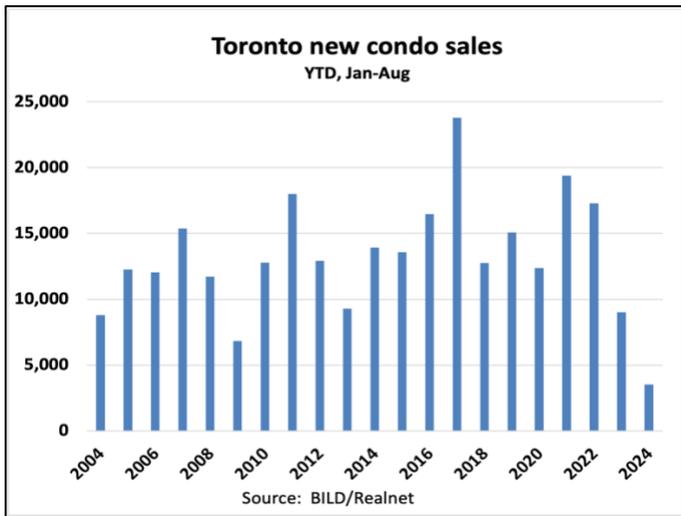
Construction activity falls as condo starts tumble

Condo starts fell a whopping 70% y/y in August, the first sign of the long-awaited slowdown in construction activity in that segment. That pulled total starts across Toronto down 48% y/y.

With starts falling, the number of dwellings under construction fell 0.8% m/m led by a 1.1% decline in condos:

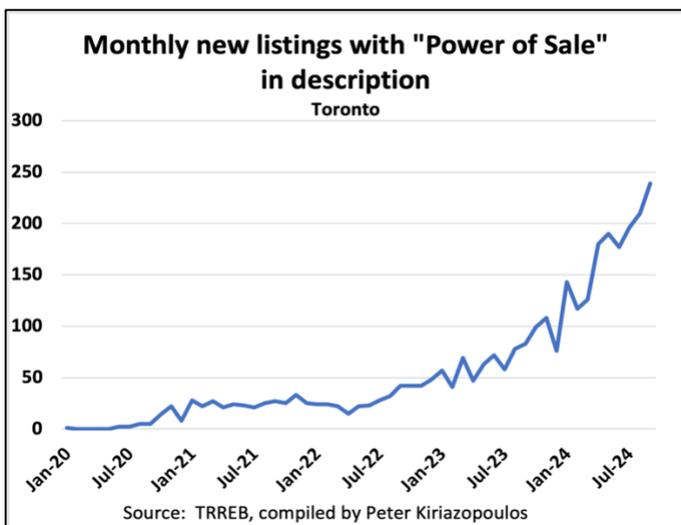


This has a long ways to go from here unfortunately, as new condo sales year-to-date are the lowest in 20 years by a wide margin. All things are cyclical, and what we see here are the seeds of a condo SHORTAGE down the road.



Power of sale listings jump

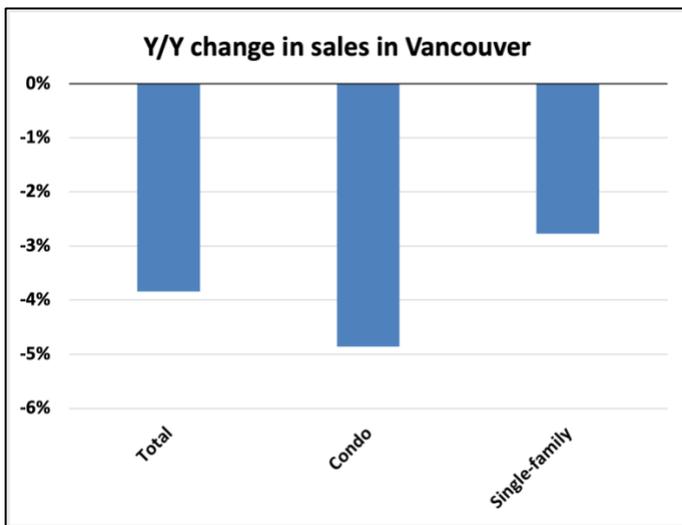
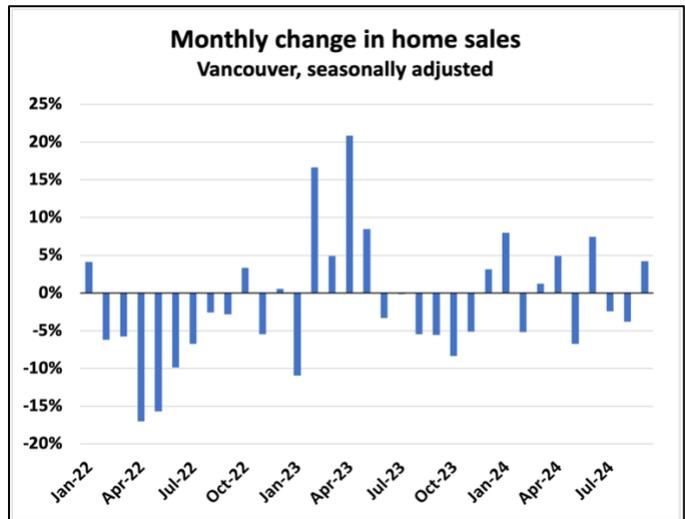
Thanks to good friend of Edge Analytics, Peter Kiriazopoulos, for the ongoing power of sale data. There were 239 new listings with “power of sale” in the description last month, the highest in at least 4 years:



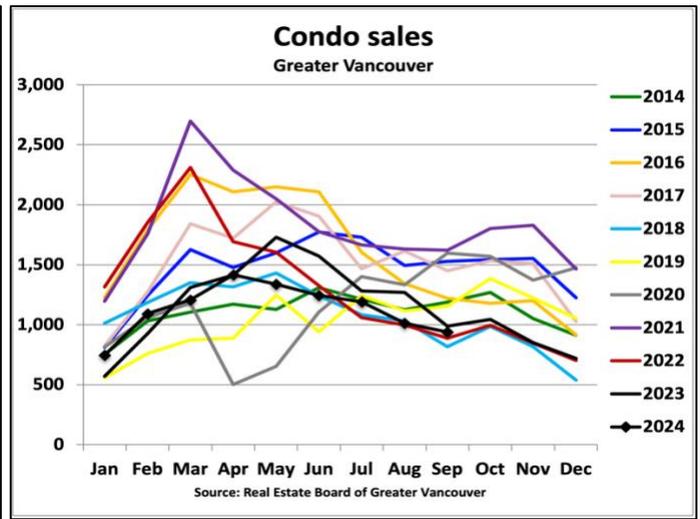
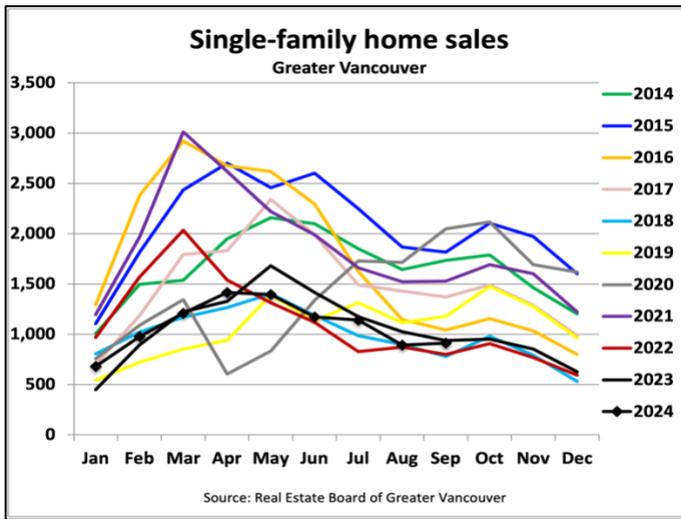
3) Vancouver: Demand up but prices down

Sales up

Seasonally adjusted home sales across Vancouver rose an estimated 4.2% in September:

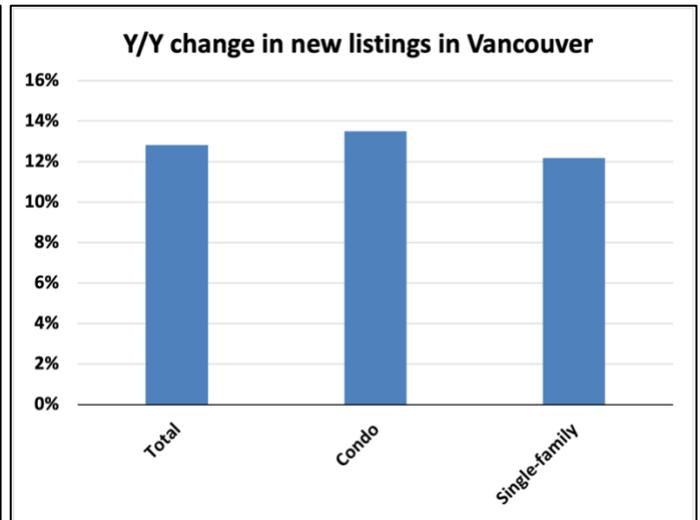
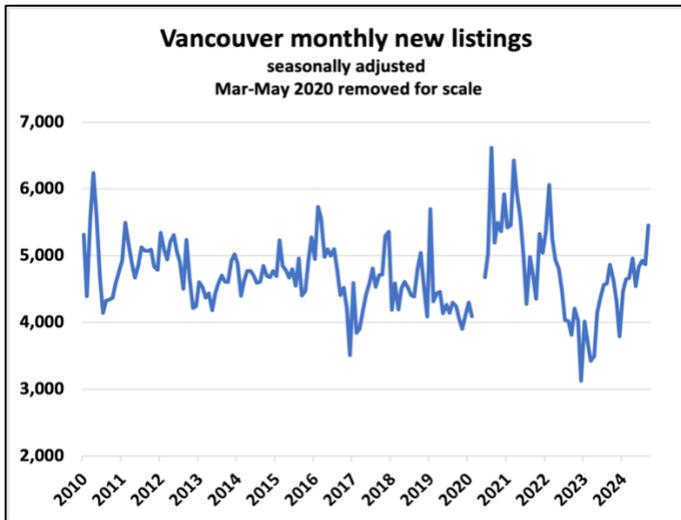


Sales overall remain very weak historically across segments:

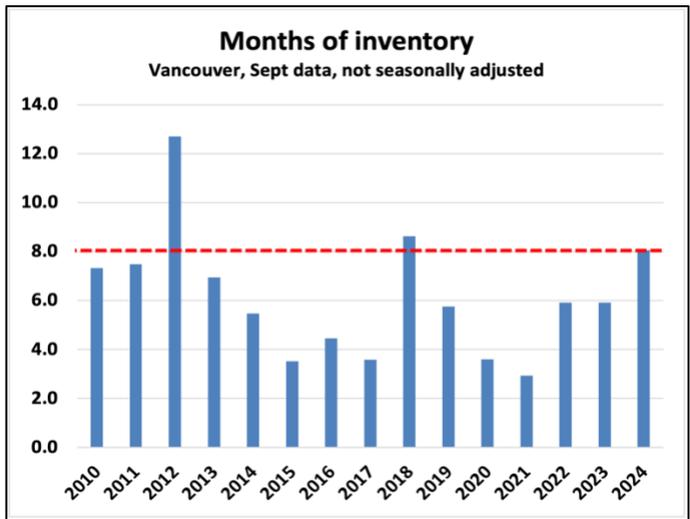


New listings surge

As with Toronto, we saw a sizable increase in new listings in Vancouver last month....up an estimated 12% m/m. It was the second highest September for new listings going back 20 years, next only to 2020:

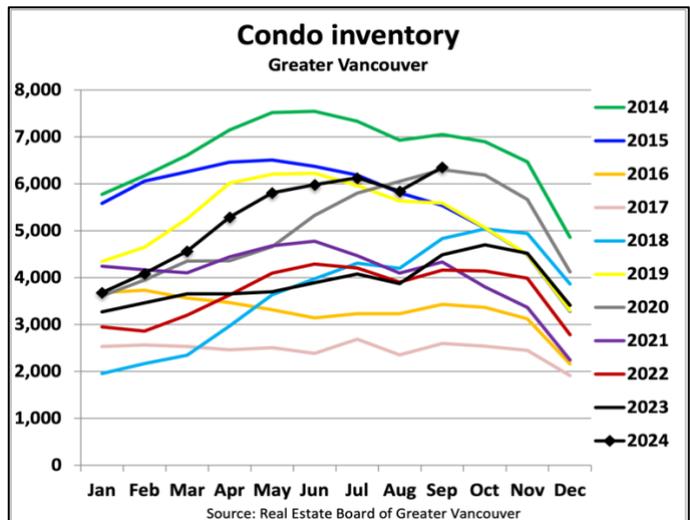
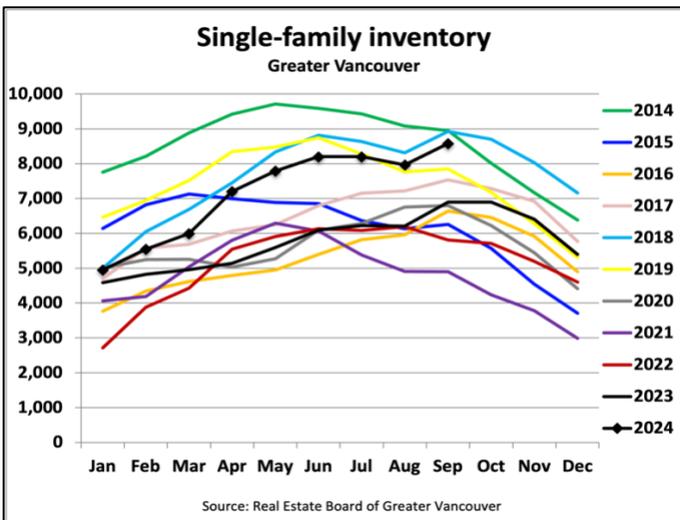
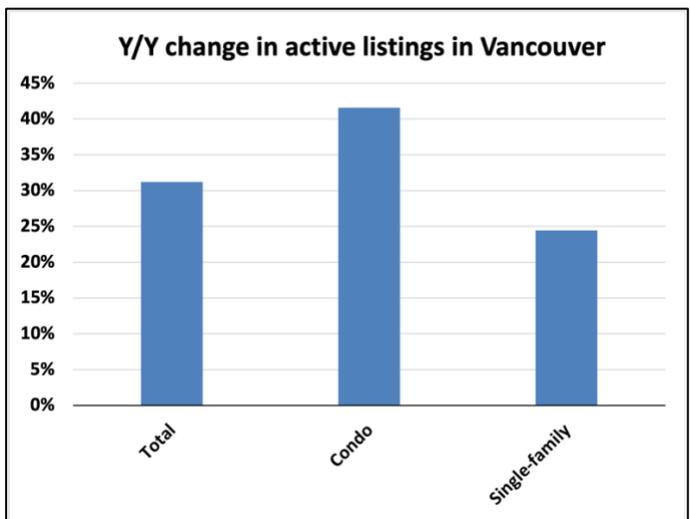
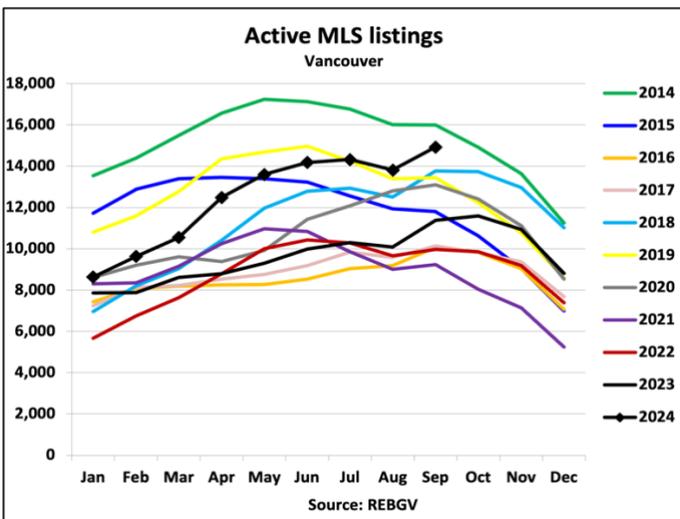


The sales-to-new listings ratio slipped back below 40% for the first time since 2020, and months of inventory rose to 8 in September. Both of those readings are consistent with price declines over the next few months unless market dynamics change in a hurry:



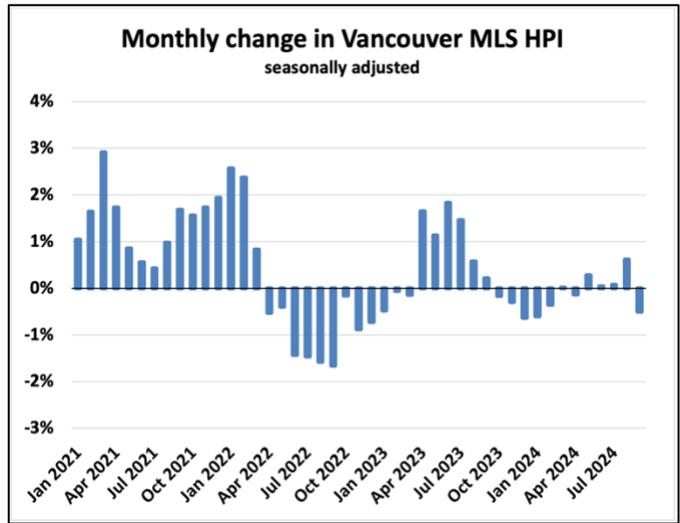
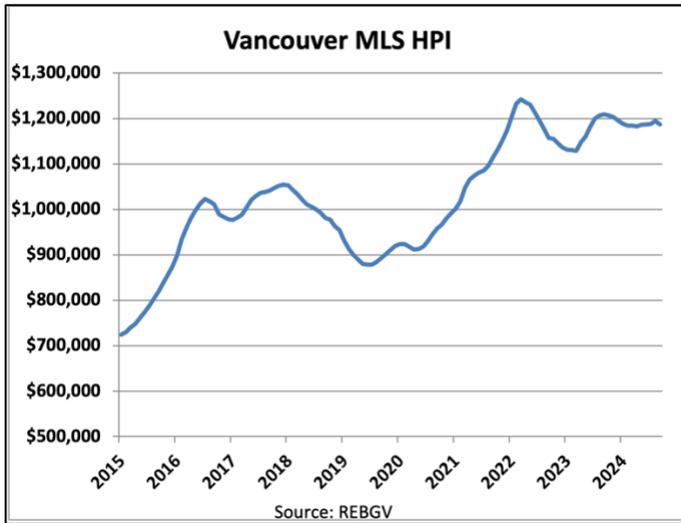
Inventory at decade highs

Active listings hit the highest levels since 2014, up 31% y/y and up over 40% in the condo segment:



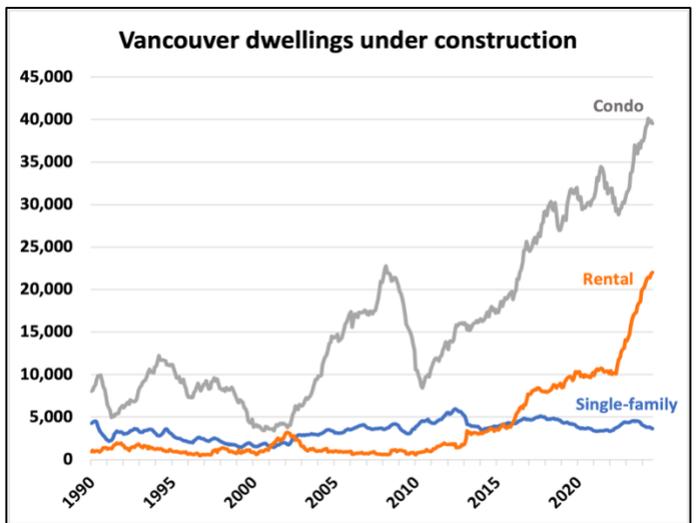
House prices slip

By my math, it appears that seasonally adjusted house prices slid 0.5% in September, but we'll have to see the official data when it's released next week:



Construction activity falls in August

A decline in housing starts (-18% y/y) and an increase in completions meant that dwellings under construction fell in August. Particularly notable is the decline in single-family houses under construction. There are now 21% fewer homes in the construction pipeline than last year at this time:

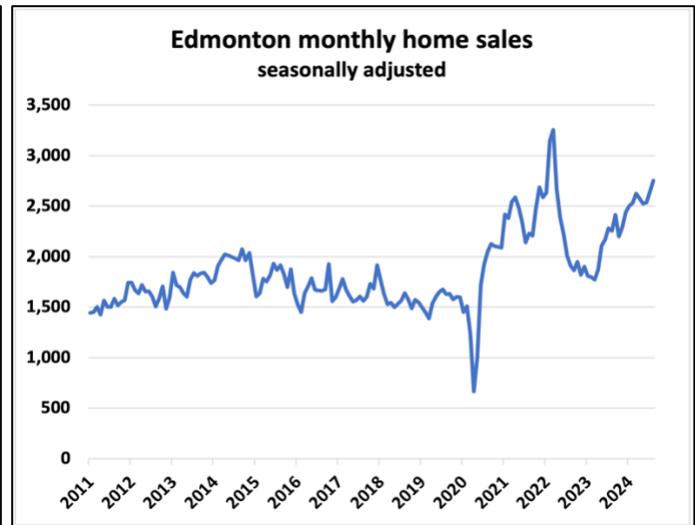
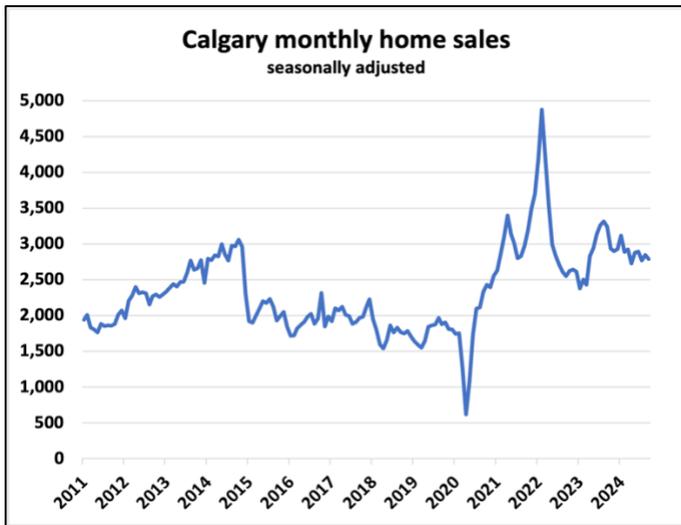


4) Calgary and Edmonton: Concerning developments in the Stampede City

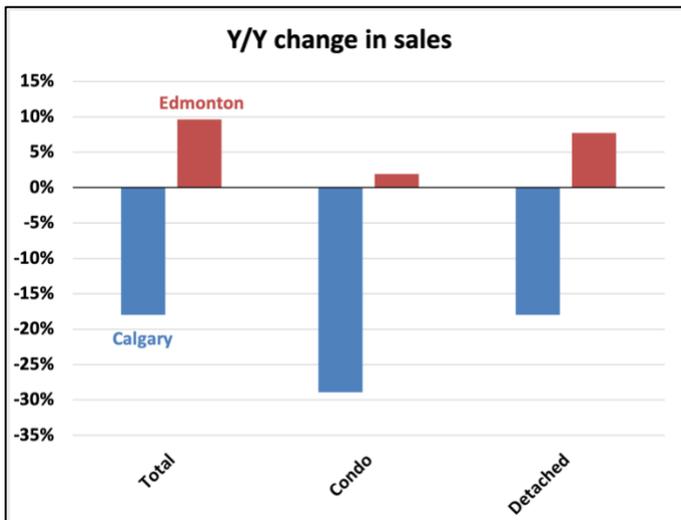
I remain a long-term bull on Calgary, and I still think it will out-perform most Canadian metros over the next decade, but it's becoming clear that we have some near-term headwinds that will likely temper house price gains this year and into 2025.

Demand remains under pressure in Calgary

Seasonally adjusted home sales slipped 2% m/m in Calgary in September while they held steady at very elevated levels over in Edmonton.

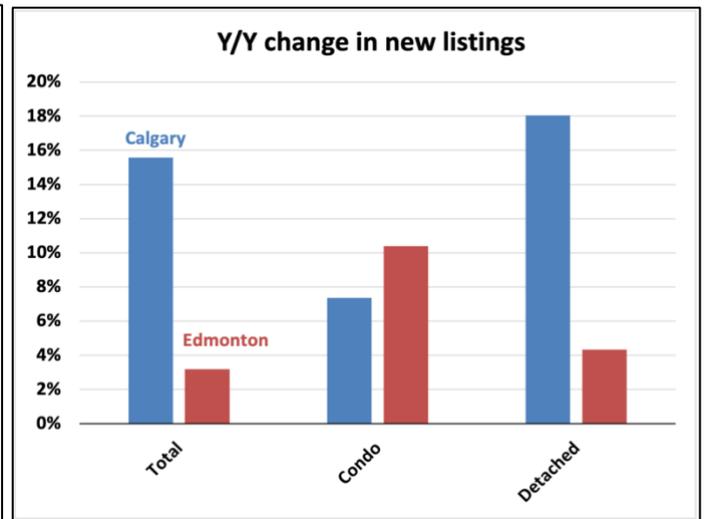
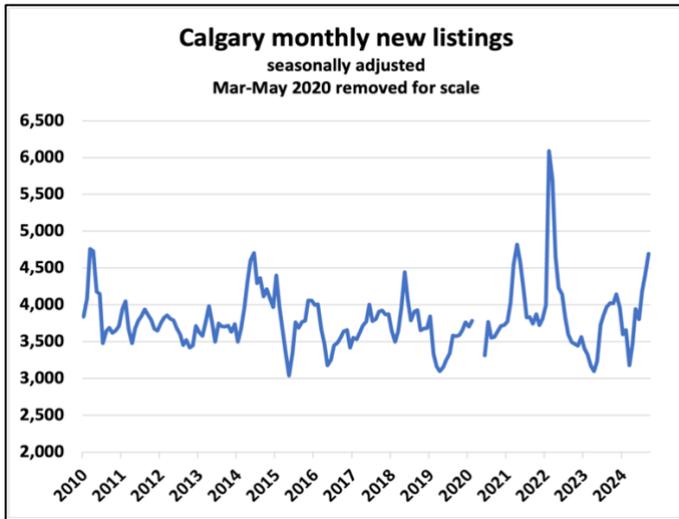


Sales were off 18% y/y in Calgary and up almost 10% in Edmonton in yet another sign that the two metros are starting to diverge.

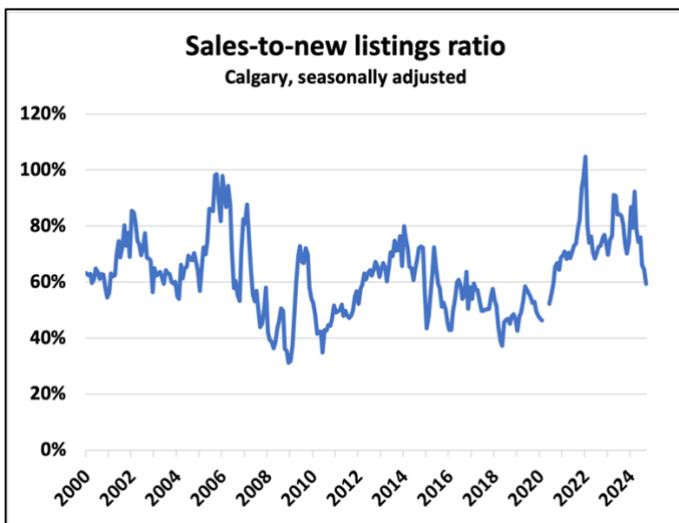


New listings surge

Seasonally adjusted new listings jumped by nearly 8% m/m in Calgary, and they were up nearly 13% relative to 2023:

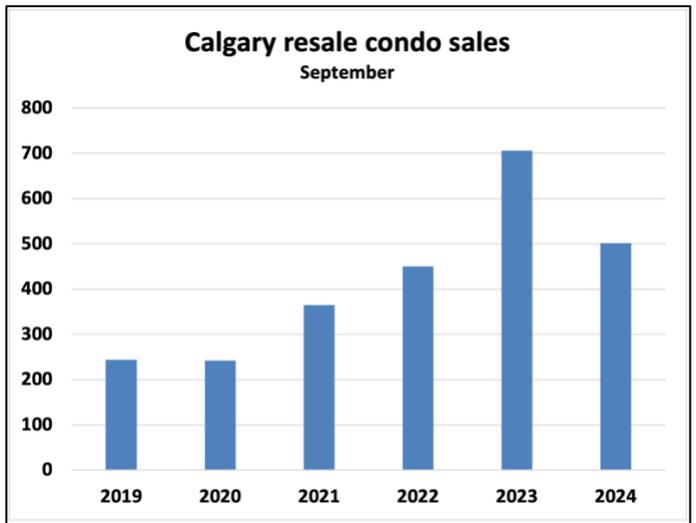
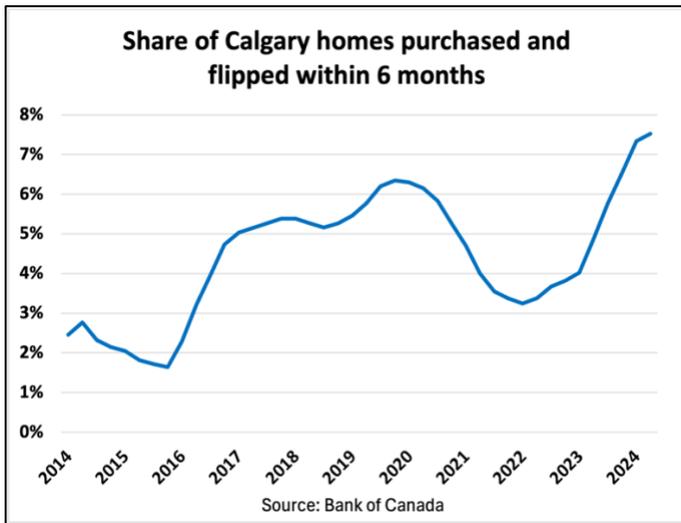


The sales-to-new listings ratio in Calgary has fallen below 60% for the first time since the summer of 2020. That's nothing to sneeze at when Toronto and Vancouver are below 40%, but it was only a few months ago that it was north of 90%. In Edmonton, that ratio remains above 70% which is still a very hot market:

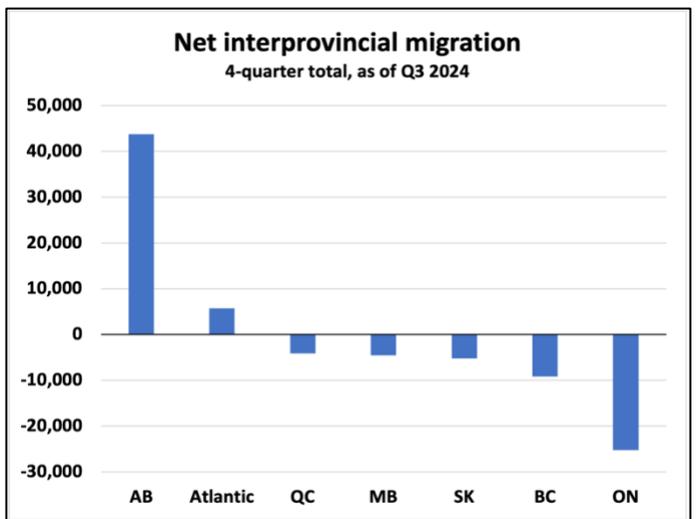
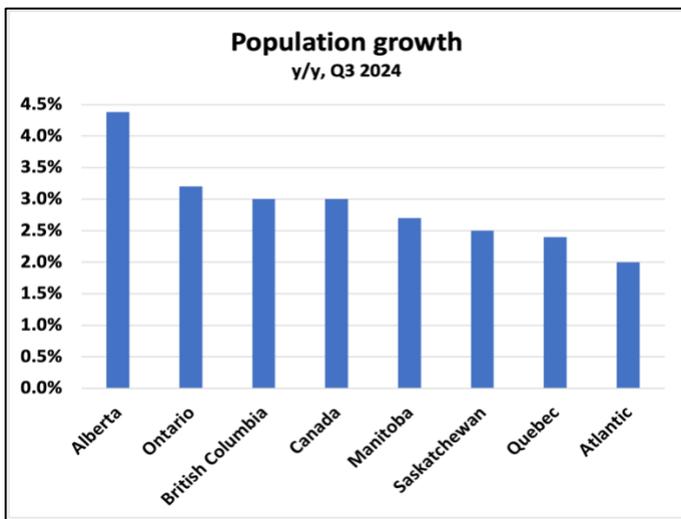


I'm not concerned about demand in Calgary over the longer term, although it's become clear that the market got a bit too frothy and will have to cool for a period.

Consider, for example, that we're now seeing a decade high in flipping activity in the metro at a time where it's near decade lows in Vancouver and Toronto. We can also see it in the dramatic increase in condo sales- a favorite segment for "out of town" property investors- which basically tripled from 2020-2023 before pulling back this year:



Investor activity always adds volatility to demand over the short term, but if we zoom out, the long term picture still looks solid. Alberta metros are still affordable relative to other parts of the country, and as a result, we continue to see strong inflows from other provinces. Consider the latest population data. Alberta continues to lead the country in terms of population growth, in large part due to strong inter-provincial flows from people leaving Ontario to head west. That looks set to continue for years to come in my opinion:

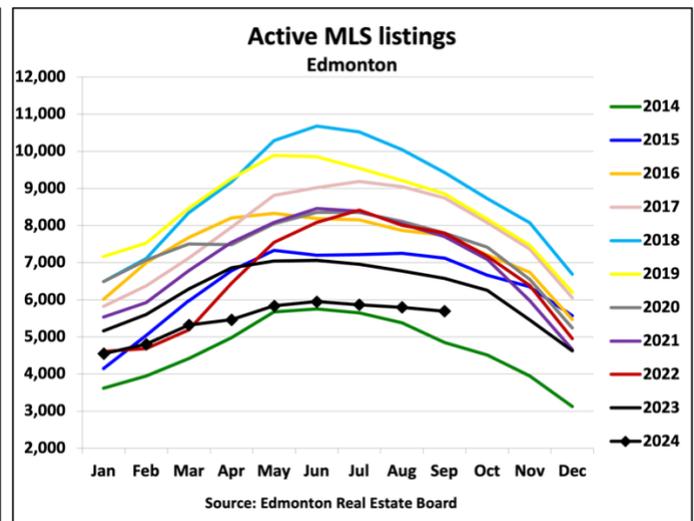
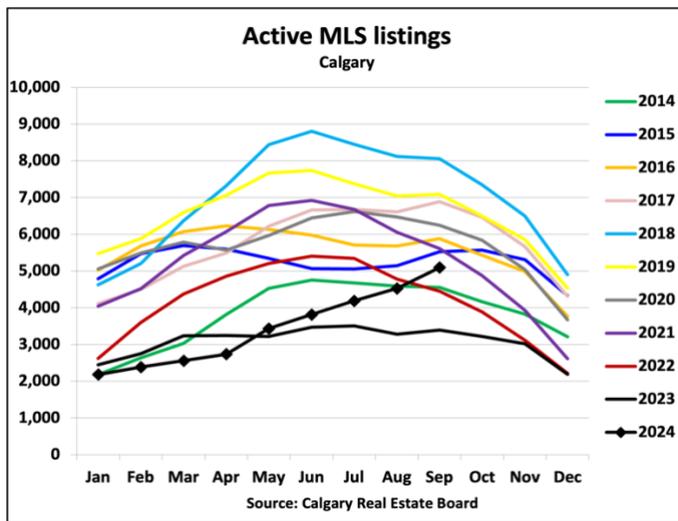


What does concern me is how quickly inventory is building.

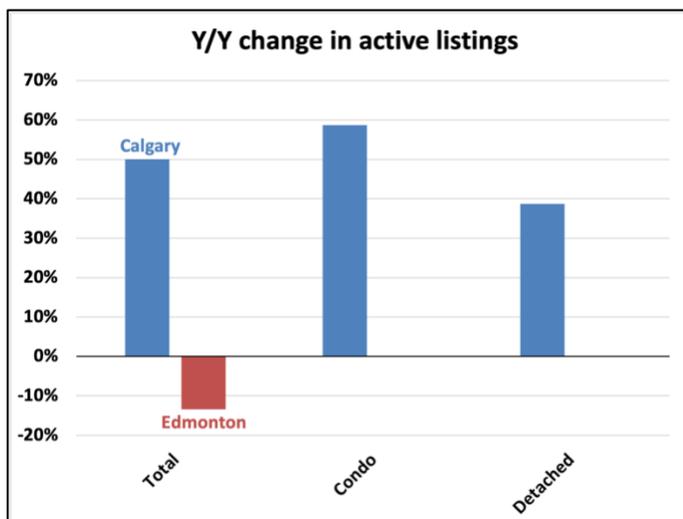
Fastest inventory build since 2006

I did suggest back in the spring that inventory levels were bottoming in Calgary and would begin to build again, but the speed of the accumulation has been surprising.

We started the year at nearly 20-year lows in inventory in Calgary. Since January, inventory levels have surged 134%. You have to go all the way back to 2006 to find the last time we've seen that sort of inventory build in Calgary over the January-September period. In Edmonton, very much the opposite dynamic. Active listings remain at decade lows:

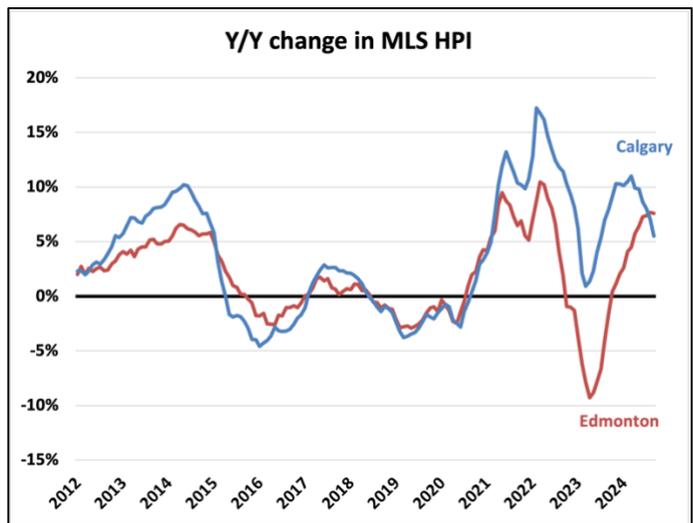
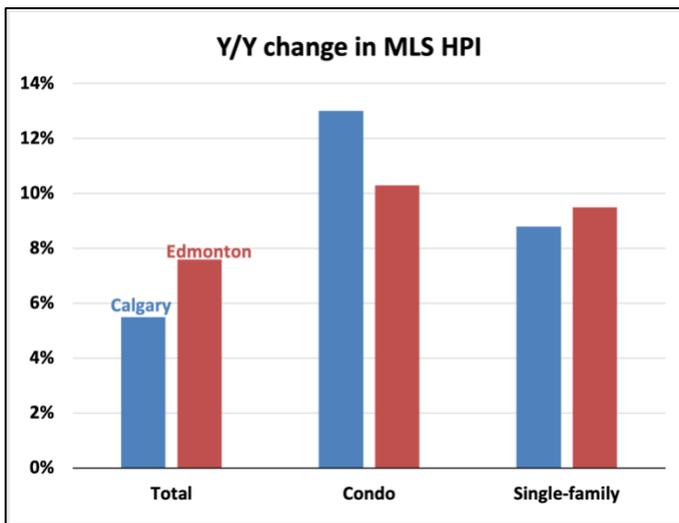


The y/y trend is striking, with Calgary seeing 50% more listings overall and nearly 60% in the condo segment vs a 14% annual decline in Edmonton:



Edmonton overtakes Calgary for price appreciation

With the two markets moving in opposite directions, as predicted here, Edmonton is now firmly ahead of Calgary in terms of annual price appreciation for the first time in nearly a decade. I think this will likely continue right through next year:



Construction activity rises in Calgary and Edmonton

Interest article here from the Globe and Mail¹:

Calgary builders lure investor buyers

Amid a housing affordability crisis, new construction is essential to meet the demand of Calgary’s growing population. As home-ownership costs rise beyond the reach of many, investor buyers in the new-build condo market play an important role in securing a steady supply of new homes. Investor activity, however, can create significant challenges for first-time buyers, as competing interests emerge.

“Developers need to cater to investors to get their projects off the ground,” says Natasha Phipps, a Calgary realtor and investment property specialist, pointing at the introduction of incentives, such as free property management and rental guarantees, to lure investors.

These efforts seem to be paying off.

Largely driven by the condo segment, the total number of starts in the Prairie city’s new-build market reached 11,883 in 2023 – the highest since 2014 – as investors flocked to Calgary in search of cash-flow opportunities.

“As interest rates spiked, investors across Canada started looking at other markets [outside Vancouver and Toronto] to make their dollars go further, but also where the numbers make sense in terms of cash flow,” Ms. Phipps says. “That’s what started piquing investors’ interest in Calgary, and that wave has grown because rental rates have increased quite a bit, too, which is really needed when interest rates have risen so much.”

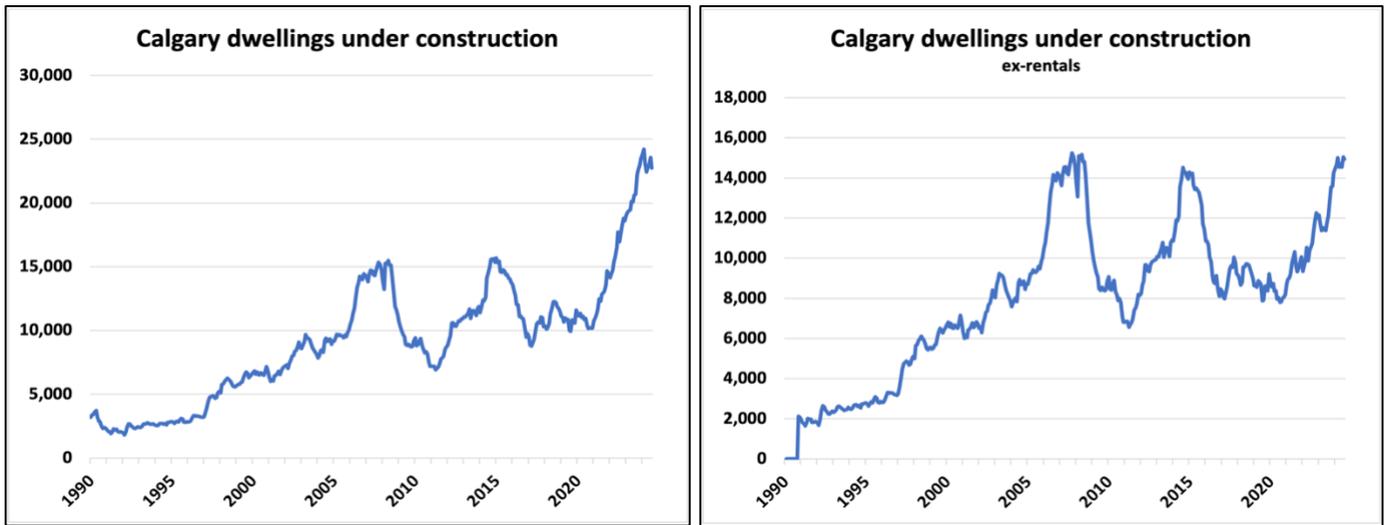
[...] “I think we’re going to see some volatility in the condo segment due to the sheer number of buyers investing in condos,” Ms. Phipps says, pointing to preconstruction condo buyers looking to make a quick return upon occupancy, a common investment strategy in Toronto and Vancouver.

“They think they can sell easily at closing, or assign it. But assignments are extremely challenging for us to successfully pull off – we’re a very different city in terms of land supply,” she explains. “So it’s putting a lot of these investors potentially in a difficult situation where they were forced to close, and now they’re trying to sell.”

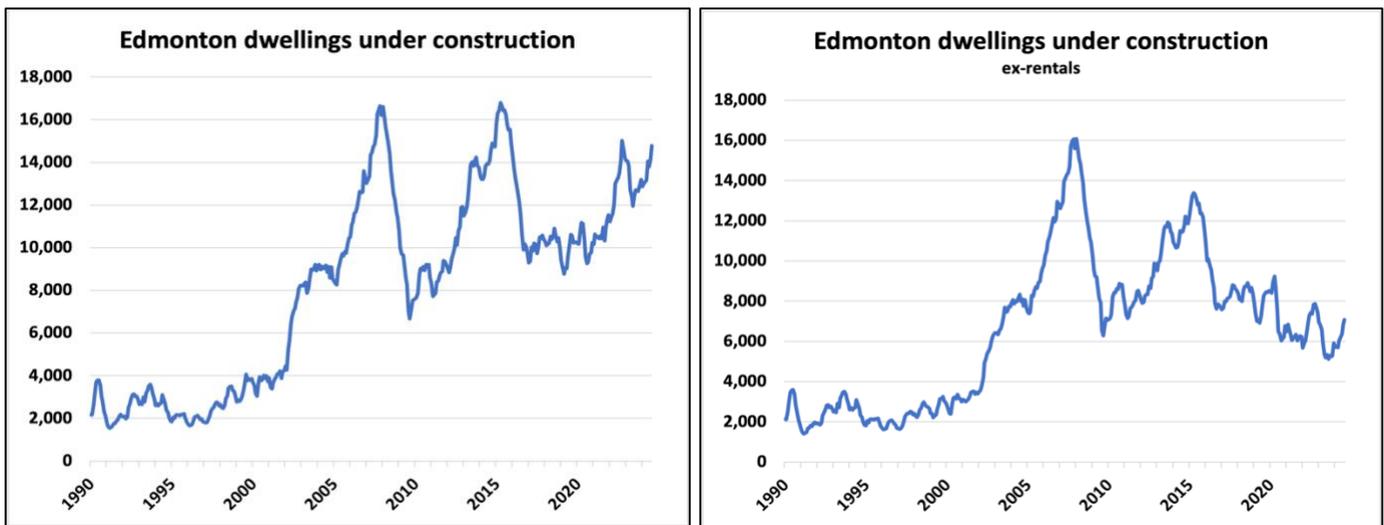
¹ <https://www.theglobeandmail.com/real-estate/calgary-and-edmonton/article-calgary-builders-lure-investor-buyers/>

The surge in investor interest from Ontario and BC has led to a strong pre-construction market in recent years, and that's propelling starts higher. So far year-to-date, starts are up 34% y/y in Calgary and up 67% for condos.

The number of dwellings under construction remains near record levels in Calgary, including once we back out rentals (which obviously represents supply that can't enter the resale market):



That dynamic is different in Edmonton where dwellings under construction are still high, but not once we back out rentals:



That tells me that there's a longer runway for a tight resale market in Edmonton right now, and it's why I think it will outperform for a little while.

Bottom line: Calgary's market has clearly attracted some hot money speculators, and that generally means it needs to cool for a period of time while the new inventory is absorbed. This process could last into next year, and during that time, I expect Edmonton will be the better performer. Still, over the long term, I'm very optimistic on both Calgary and Edmonton and would view any pullback in Calgary as a good buying opportunity.

Have a great day!
Ben