Edge Realty
Analytics

www.edgeanalytics.ca

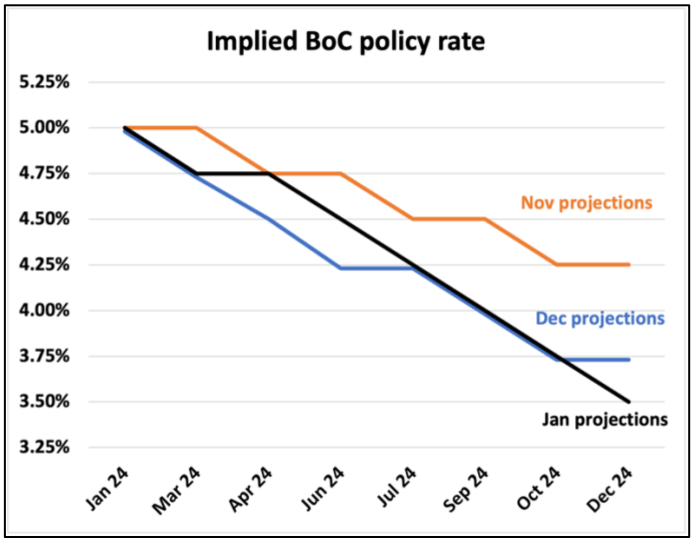
January 2024
Metro deep-dive: December data

Quick links:

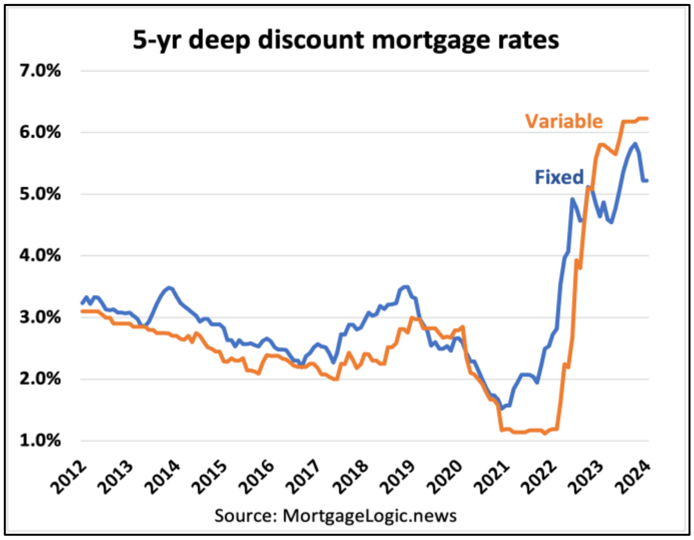
Prepared For:

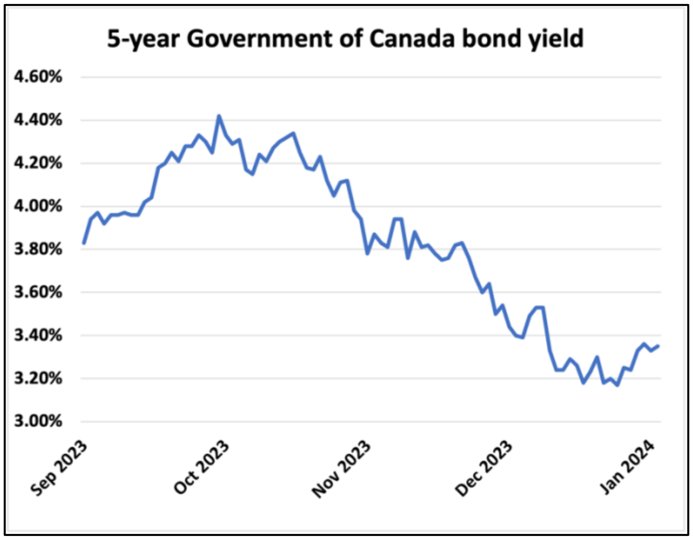
1) Macro commentary: Rate projection update

Let's start with an update on market expectations for the Bank of Canada overnight rate for 2024. As you can see below, the latest projections still have the first rate cut most likely at the March meeting with a hold in April before cuts continue through the summer. Markets are now expecting the overnight rate to end the year at 3.5% vs 3.75% last month and 4.25% in November:



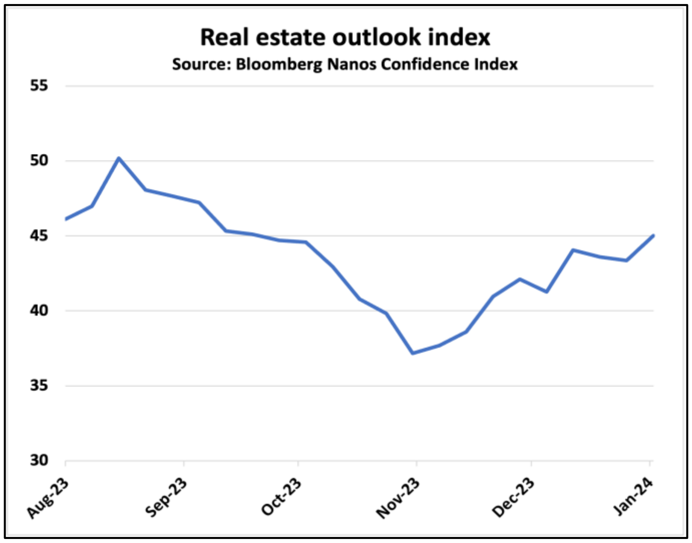
Fixed mortgage rates continue their frustratingly slow drift lower. Deep discounted rates are now in the 5.2% range with some insured mortgages available at well below 5%. Based on forward projections, it still looks like there's another ~50bps to come off fixed rates to re-align with bond yields which are down 90bps from the October highs:





The prospects of an end to the current rate hike cycle has driven rising optimism around real estate, with Bloomberg-Nanos' Real Estate Outlook Index having risen strongly off the early November lows:

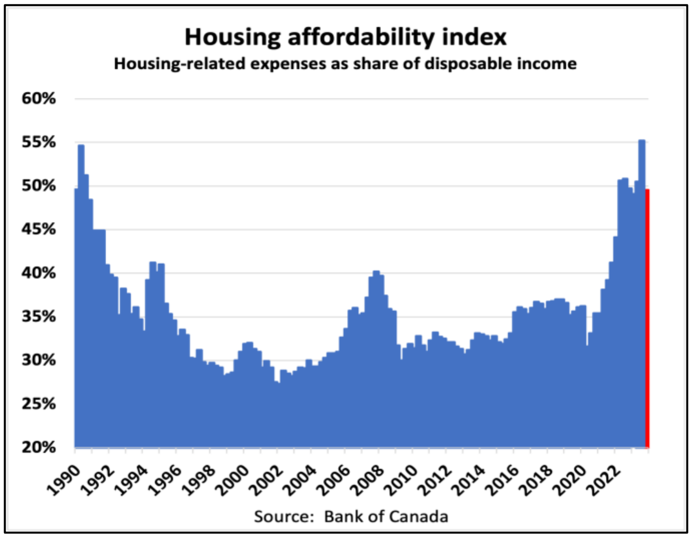
Prepared For:



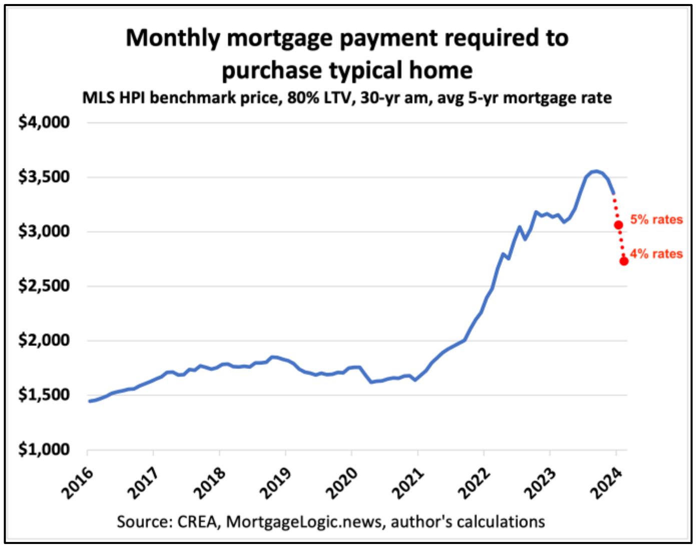
With rates modestly lower and confidence on the rebound, it shouldn't be surprising that home sales would bounce off the crazy low levels seen in late 2023. I wrote last month that we should expect a 10-20% jump in sales over the next few months as the handful of well-qualified buyers who were waiting on the sidelines begin to enter the market again.

Preliminary estimates from real estate boards across the country suggest that December saw a 10% seasonally adjusted increase in sales relative to November. That's excellent news, and there's no reason to think things won't improve further.

But I want to temper any expectations for an imminent return of the post-COVID demand boom. By my estimates, affordability in this quarter is showing a marked improvement from the all-time lows in Q3, but is still at close to the worst levels of the past 30 years:



We can also model out monthly payments at 5% rates and 4% rates. They are certainly better, but 4% rates means mortgage payments are still 62% higher than they were in 2021:



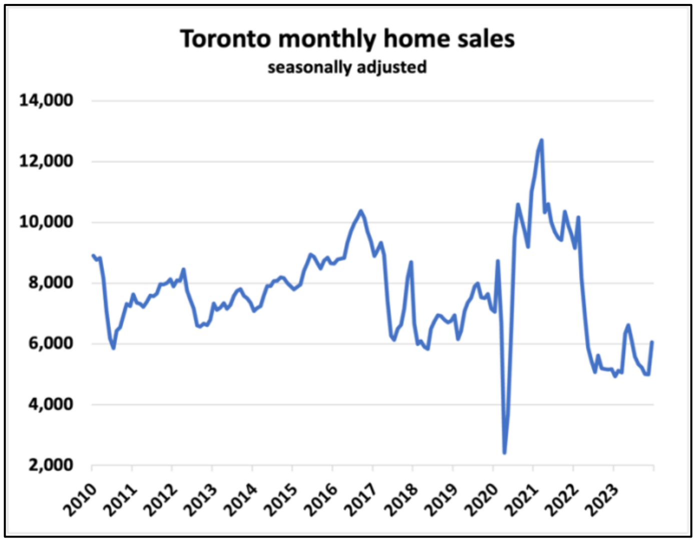
So we still have quite a bit of wood to chop to get affordability back to the point where the boom times can continue. That may happen later in 2024 IF rates evolve as projected and the economy slides into a "goldilocks" scenario where inflation returns to target without a meaningful deterioration in the labour market.

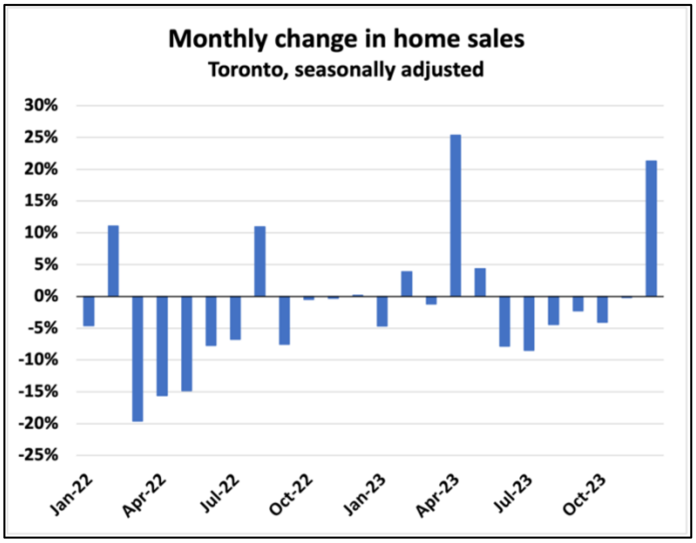
That leaves us with the conclusion that, while demand can and likely will improve marginally from here, it will ultimately be constrained by the realities of the affordability situation, which means supply remains the key fulcrum point that we should focus on as we head into the Spring selling season.

2) Toronto home sales surge, new listings evaporate

The year-end home sale tally shows just how bad 2023 was for Toronto real estate. A total of just 66,000 homes sold across the metro region in 2023, the lowest annual tally since 2000.

But that's the rear-view mirror. The standalone December data showed seasonally adjusted home sales surging by 21.3% m/m with some upward adjustments to the prior 5 months to boot. This represents the largest monthly increase since April of last year.

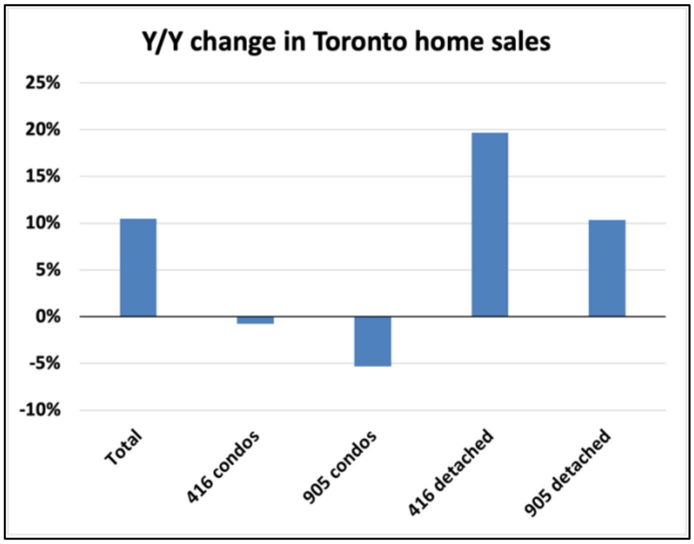




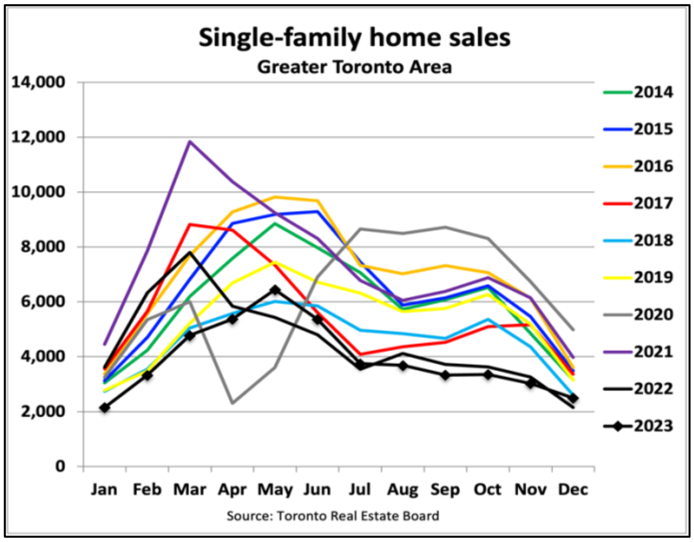
<u>One caveat to this data: December and January are always the lowest volume months of the year for home sales in</u>

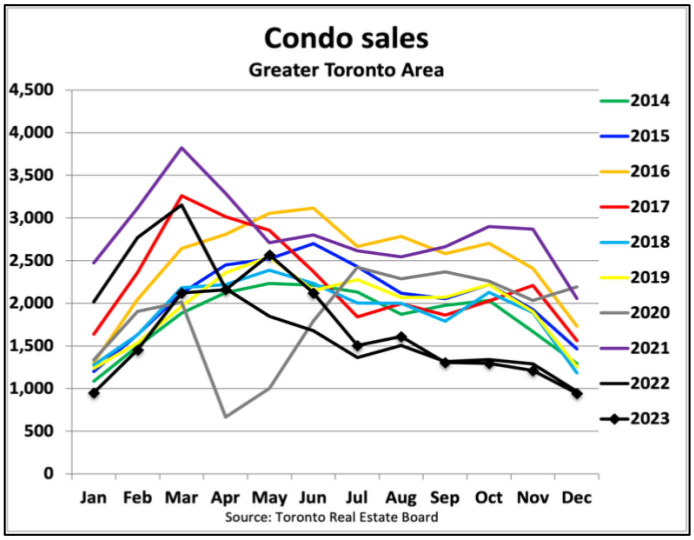
Canada, and they are also the months that can be most impacted by weather events. A bad storm system or a stretch of nice weather can easily push seasonally adjusted sales by +10% m/m in either direction. Just keep that in mind when looking for signals in the data at this time of year.

Sales were up a little more than 10% compared to December 2022, but all of those gains were in the single-family segment while condo sales in the 416 and 905 were still negative y/y:



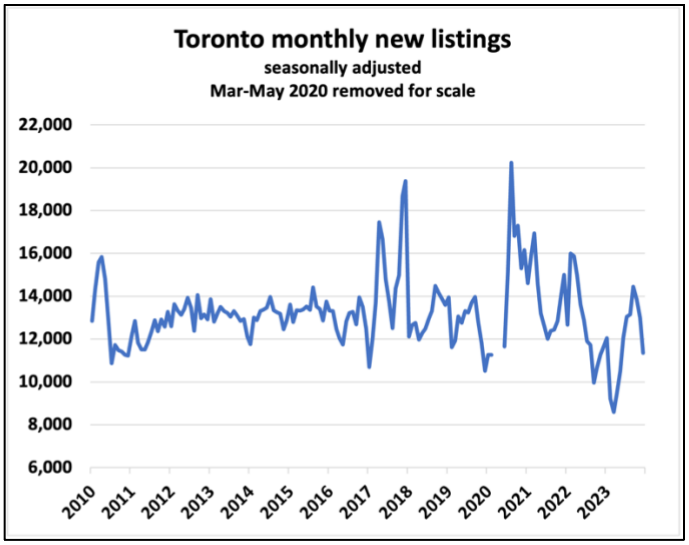
In the case of condos, December saw the lowest amount of sales since 2008:

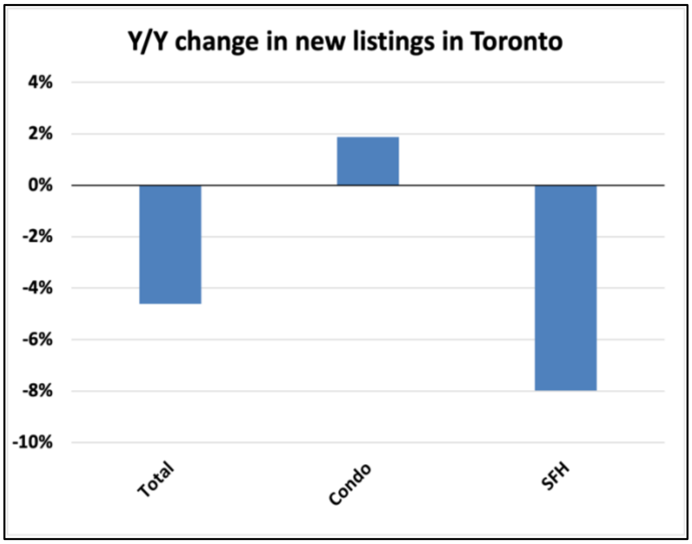




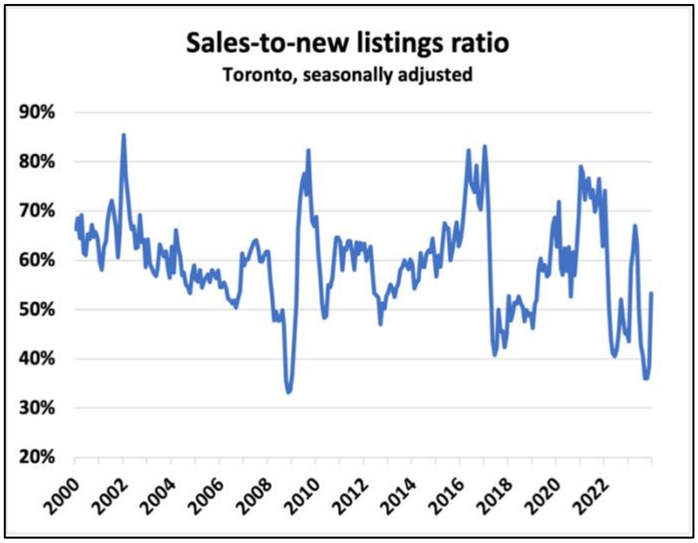
New listings evaporate

The real story will be on the supply side, and here there was a very notable development in December. New listings in Toronto fell 13% m/m, the largest decline since February and the second lowest reading for any December in the past 20 years. Here once again, there are clear divergences between segments with condos seeing listings 2% higher than last year while single-family saw an 8% drop:





With sales up and new listings down, the market balance tightened significantly last month. The sales-to-new listings ratio jumped from 38% (deep buyer market) to 53% (lower end of balanced)….in a single month! That's the sharpest one-month improvement we've seen since coming out of the pandemic:



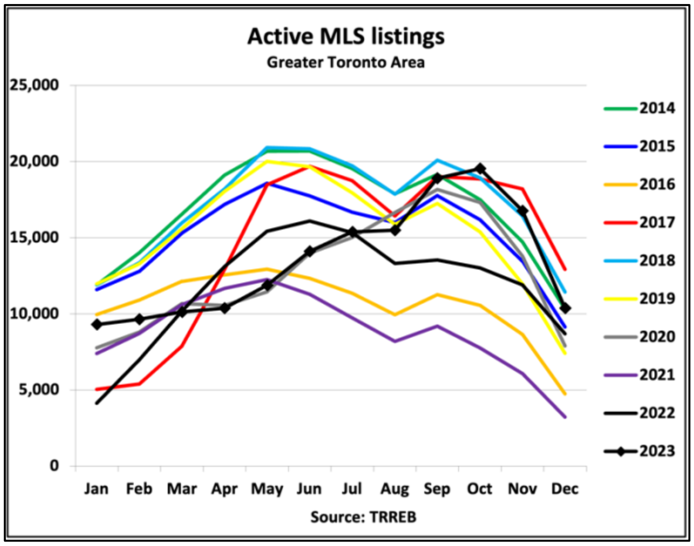
Prepared For:

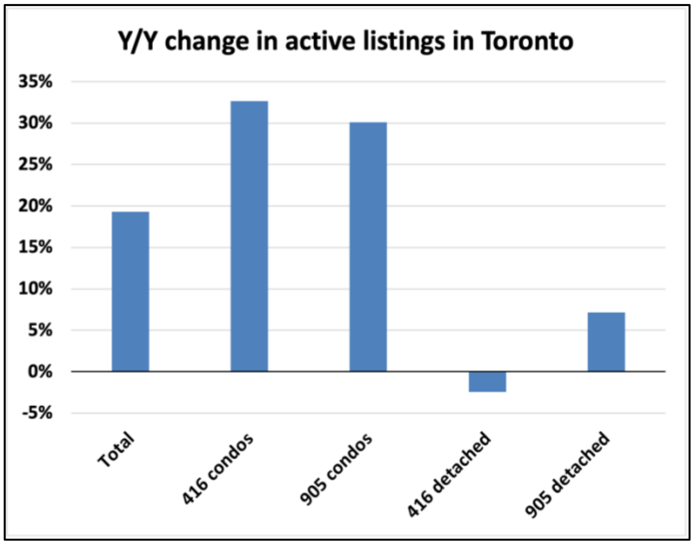
Inventory growth stabilizes

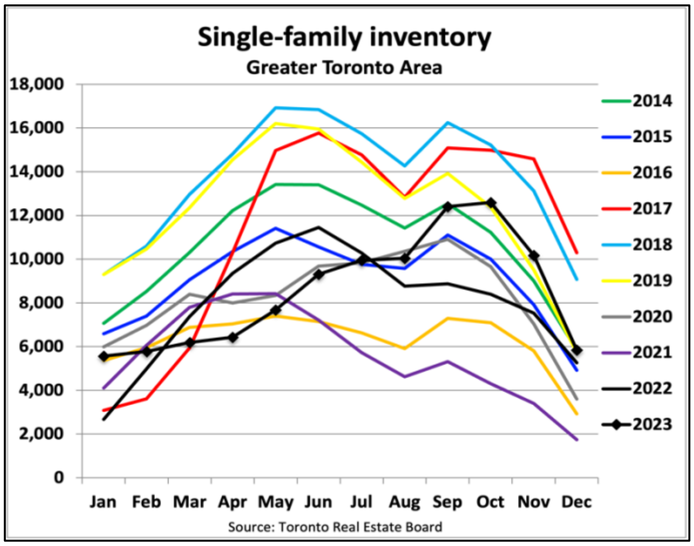
One month doesn't make a trend, but this was the same setup heading into spring 2023: A steep reduction in new listings and a mild uptick in demand led to a dramatic tightening in market balance that pushed prices up almost 10% by the end of the summer.

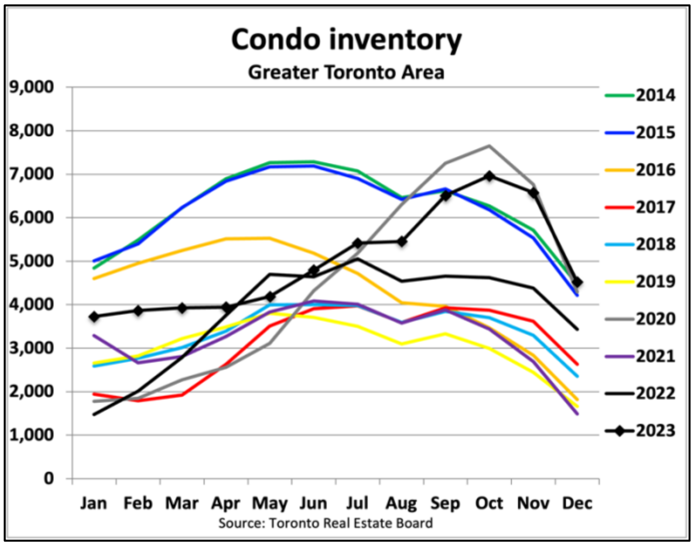
The difference this time is that active listings are 20% higher than last December, so there's bit more of a supply buffer to work through. Still, this is a potential trend that could point to a stabilization in pricing IF it continues.

Condo listings are roughly 30% higher than last year at this time while single-family inventory is up roughly 5%:





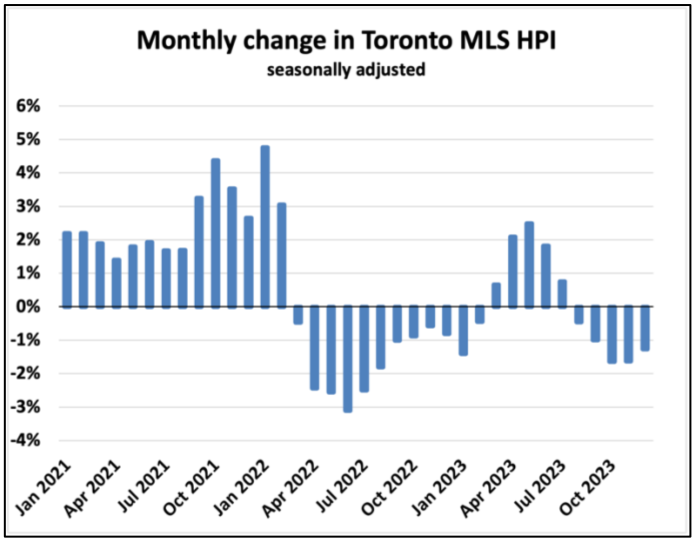


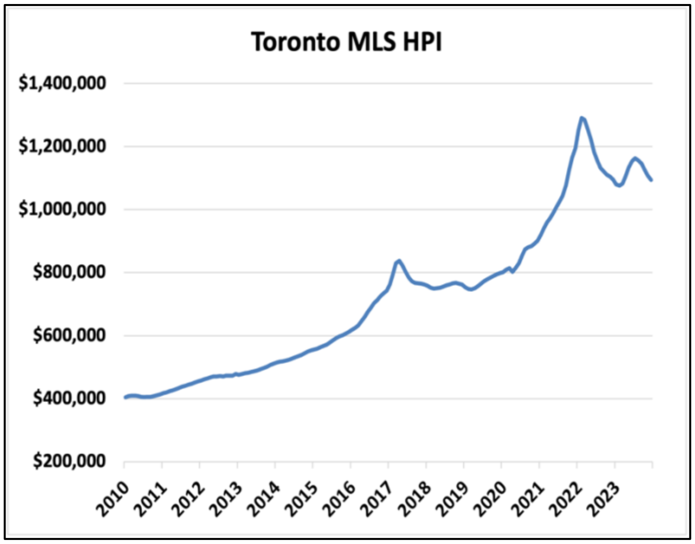


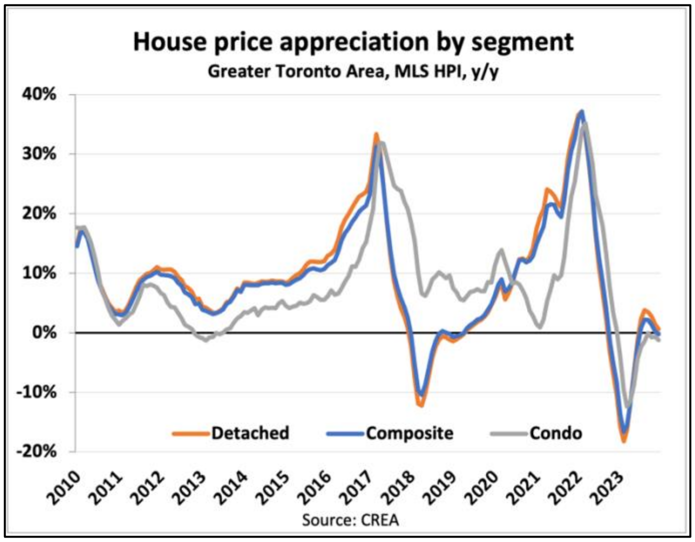
Prepared For:

House prices tick lower, but for how much longer?

The seasonally adjusted House Price Index fell 1.3% m/m and has now fallen 15% from the record highs. BUT, if the market can manage to hold the current level of balance, those price declines will give way to flat or slightly higher prices before the spring. And then all bets are off:



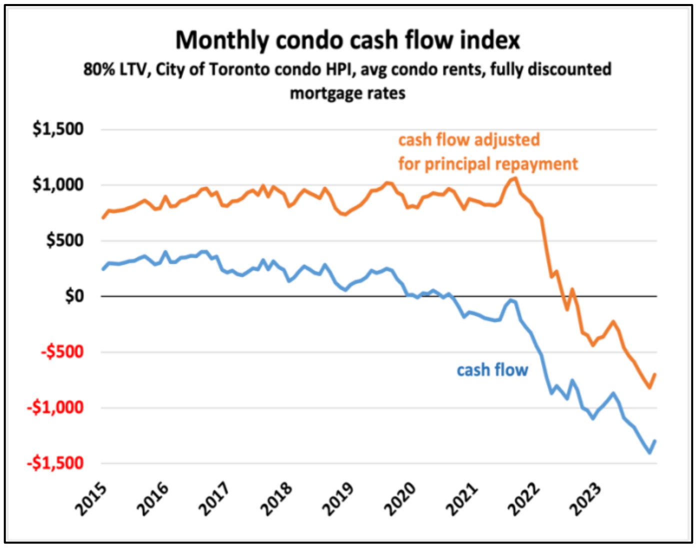




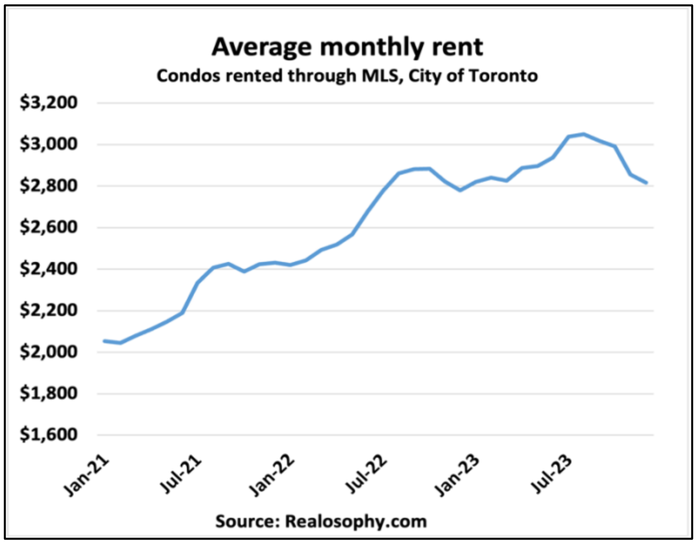
Condo market check

It should be clear from the data above that the condo market is the current laggard. This should not be entirely surprising given the importance of investors to this segment and the fact that rental economics on newly-purchased units still don't look great.

Those rental economics did improved slightly in December, but a resale unit purchased today would still be looking at roughly a $1,300 per month negative carry if financed at 80% LTV. Those are very rough numbers, so take them with a grain of salt. But the trend in the index is more important and does give some indication of the general difficulty new investors will face in finding cash-flowing units today:

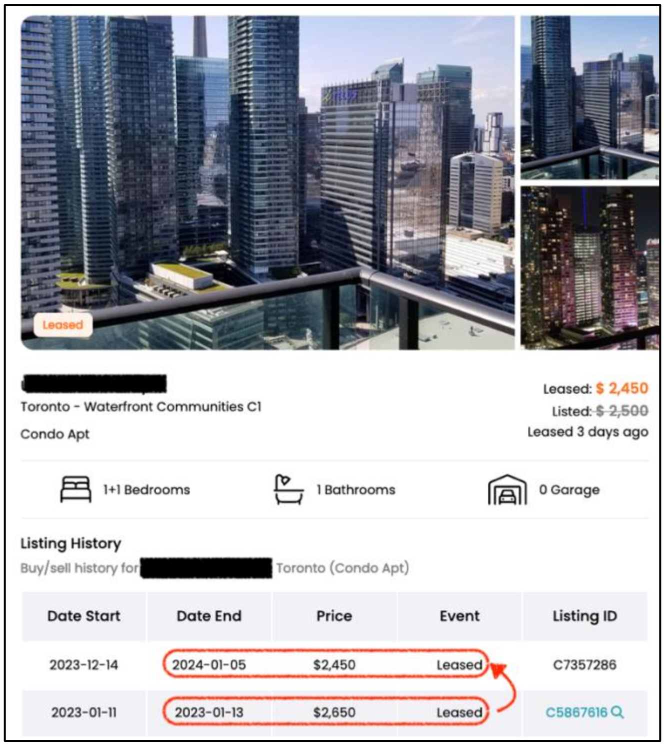


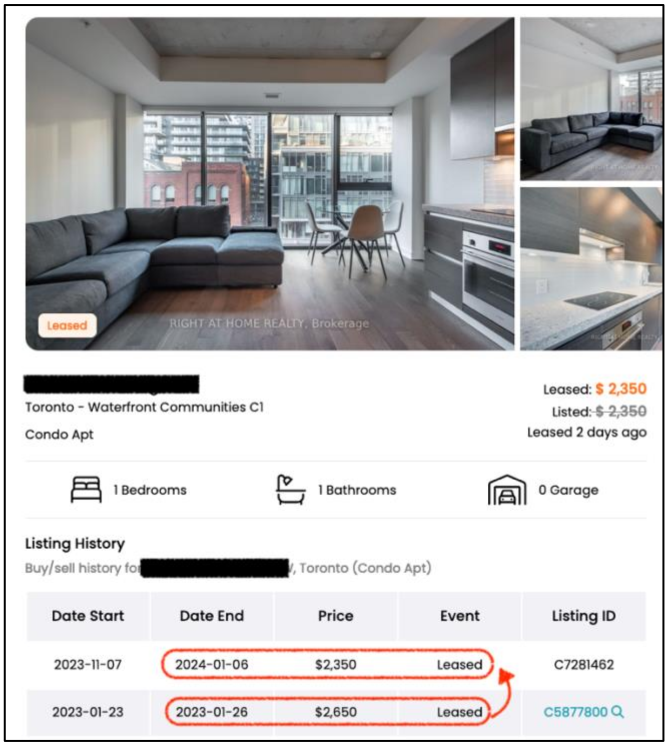
There is normal seasonality to the rental market in Canada, with rents typically peaking in the summer and then softening in late fall through the winter. But the seasonal decline in condo rents in Toronto this year is particularly pronounced, and it squares with anecdotes from frontline contacts pointing to a significant slowdown in recent months:



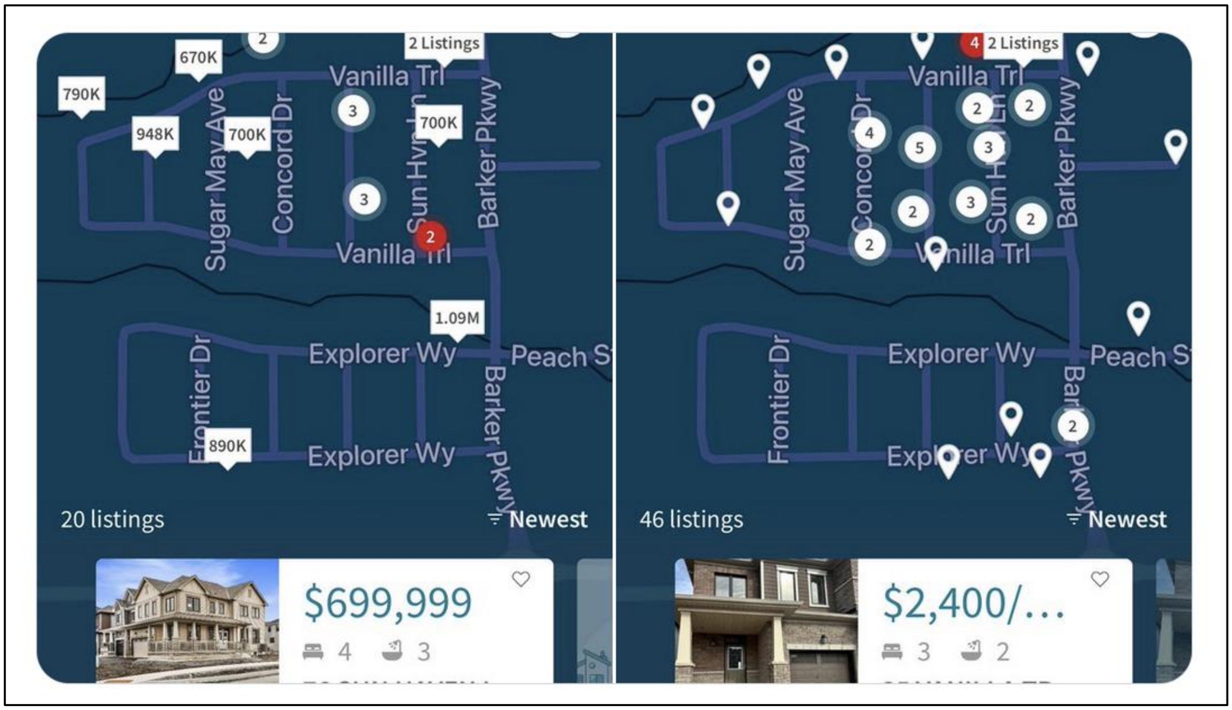
This is evident when we look at recent lease transactions from the past week that previously leased in early 2023. Here we're comparing leases separated by almost exactly one year…ie the "slow time" in 2023 vs the "slow time" today. If the rental market were as strong as widely believed, why is it easy to find units renting for less than the prior lease rate? I think this speaks to rents that may have bumped up against an affordability ceiling for the time being. Remember, house prices can be influenced by credit (ie rates and mortgage availability) but rents are ultimately tied to underlying incomes and can only be pushed so far:

Prepared For:





Meanwhile, realtor Jon Flynn highlighted the difference in for-sale listings (left) in a particular Toronto area neighborhood compared to for-lease listings (right) in that same area:



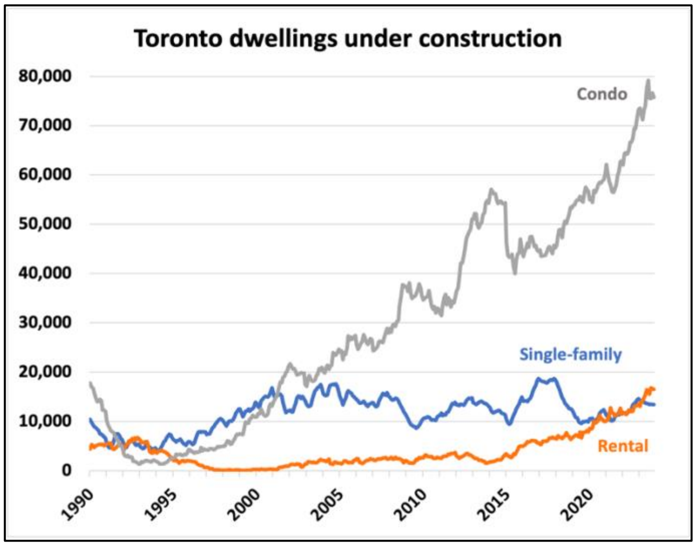
It's clear that some prospective sellers have chosen to rent out homes rather than list into a weak market, and that may be starting to take some steam out of the rental market.

If so, this represents potential future resale supply if rates surprise and stay elevated OR if resale prices move sideways for an extended period of time. At what point does it become too painful to eat the negative carry in a market that is treading water? This is something to watch.

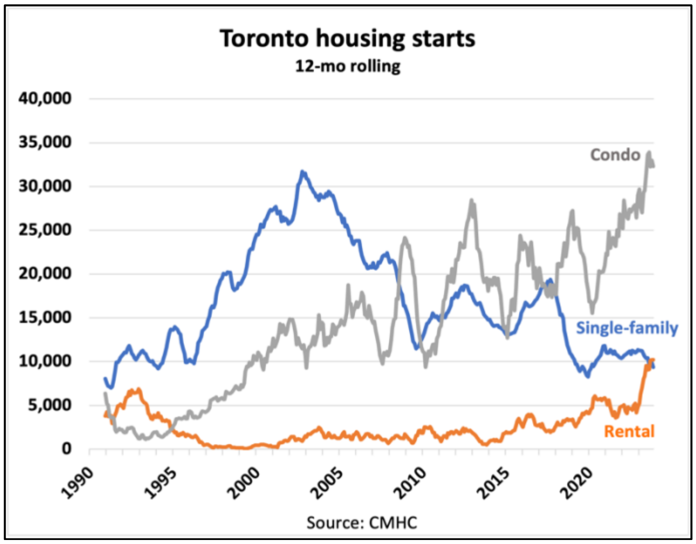
Prepared For:

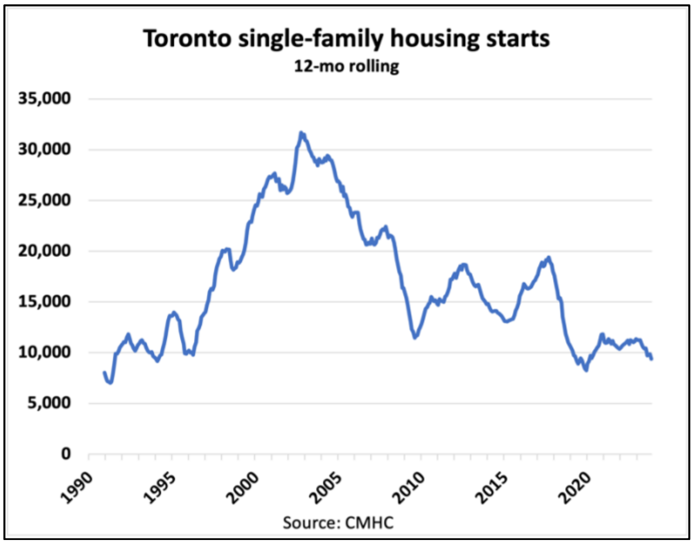
Under construction inventory falls

Dwellings under construction across the GTA fell 1.1% m/m in November due to an acceleration in completions in the condo and rental space (yet another reason for the slight cooldown in the rental market??).



Once again I want to flag the steep drop-off in single-family starts, which I've isolated on the chart on the right. This is how future crises are made. It may not feel like it right now, but we're sleepwalking into a potentially severe supply issue that could make the 2017 and 2021 episodes look tame in comparison:



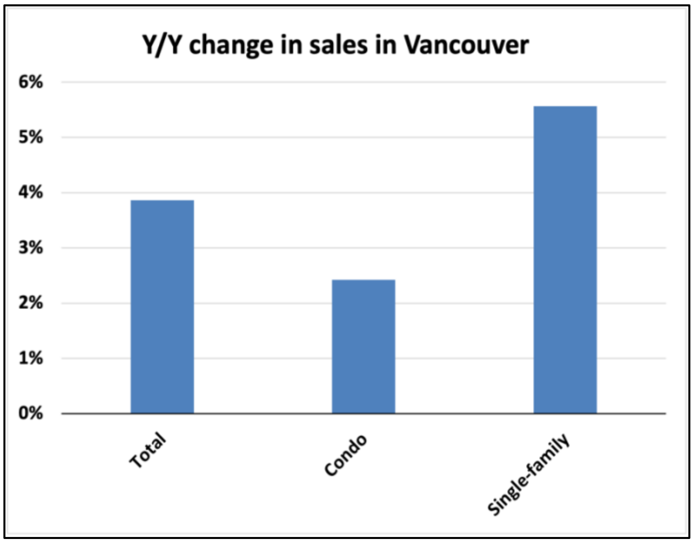


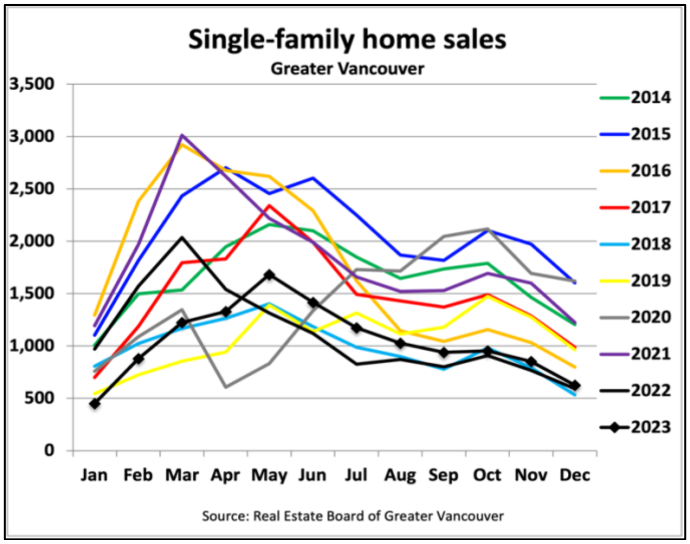
Prepared For:

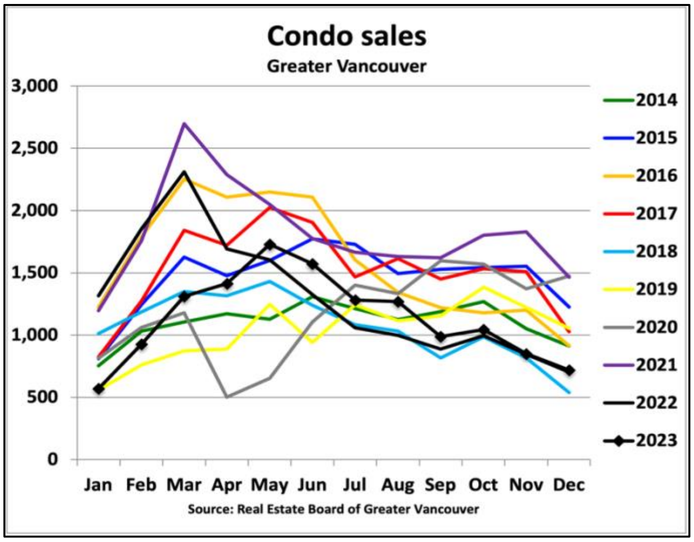
3) Vancouver home sales stall but new listings disappear

Sales fall

Unlike Toronto, sales in Vancouver failed to gain traction in December. Transactions fell roughly 2% m/m but they were slightly ahead of 2022 levels for the month:

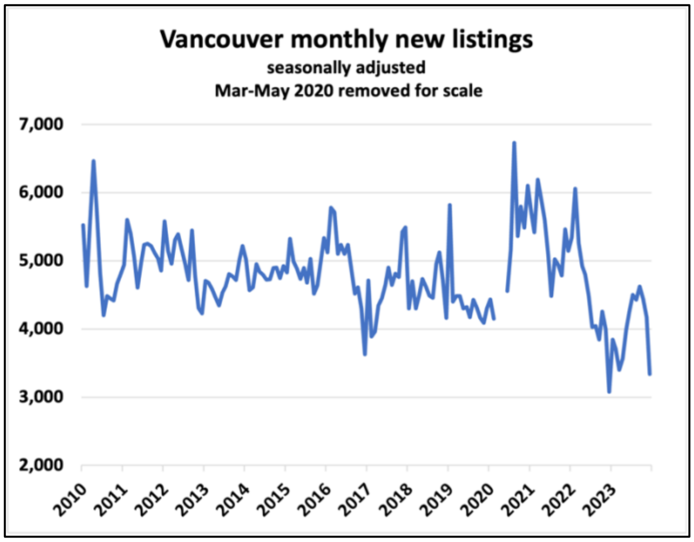


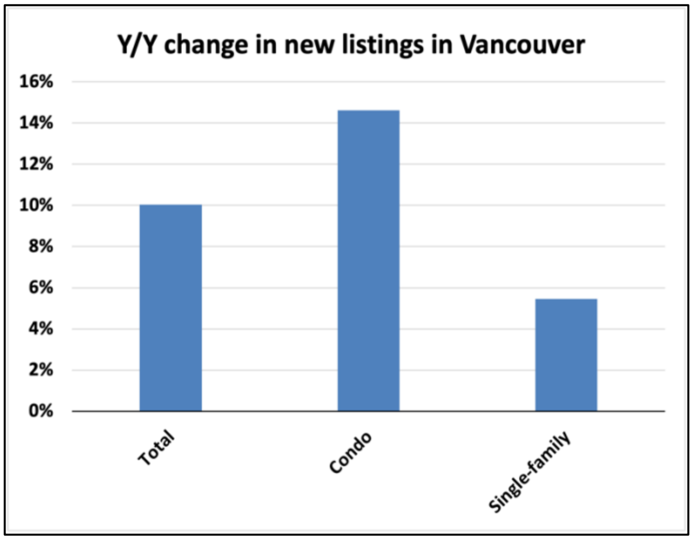




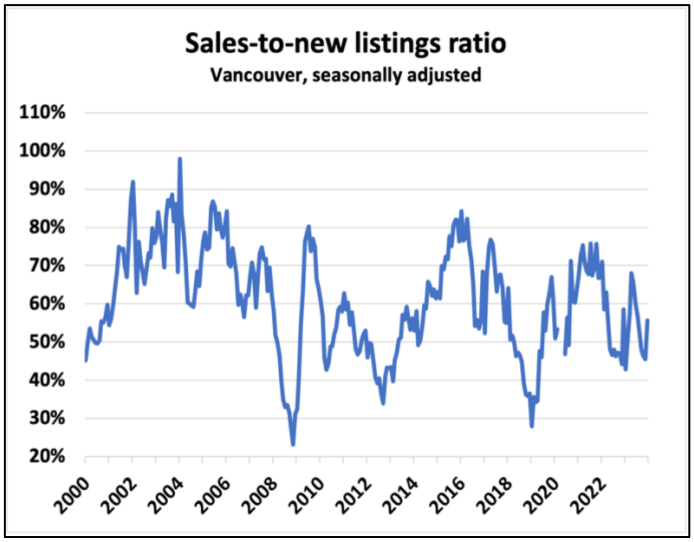
New listings disappear

We'll have to wait for the official CREA data later this month, but my model suggests that seasonally adjusted new listings slumped by nearly 20% on the month and are now 25% below long-term norms. New listings were slightly higher than December 2022, but that doesn't say much since we were consistently making 20-30 year lows in listings through the back half of 2022.





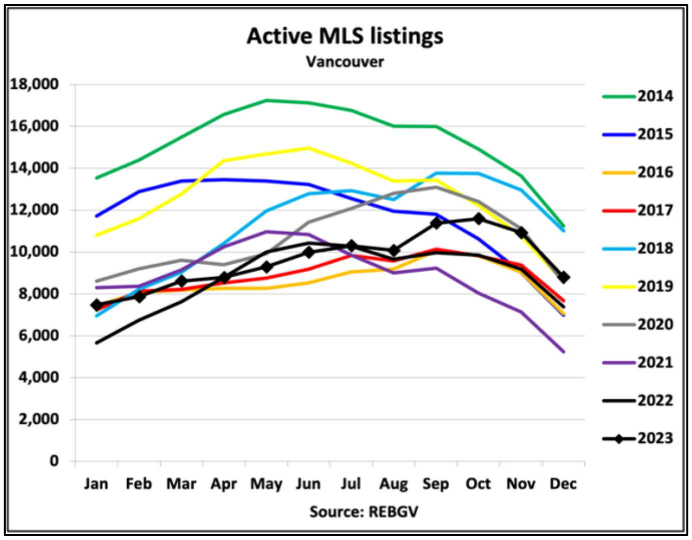
With new listings falling more than sales, it led to a solid rebound in the sales-to-new listings ratio to back above 50%.

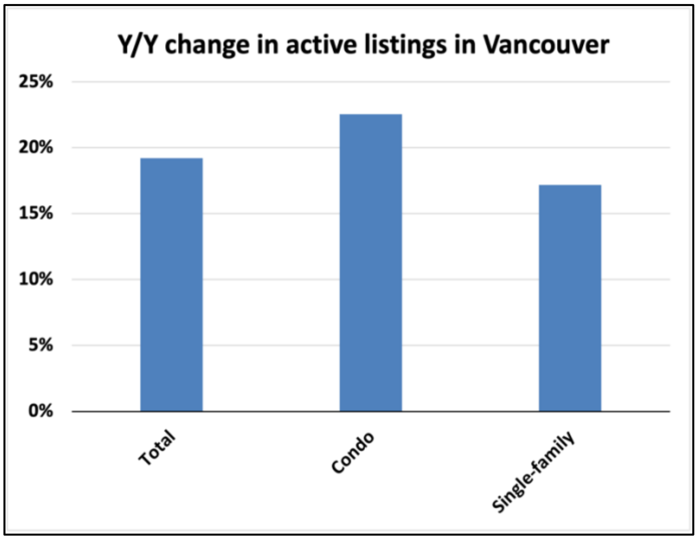


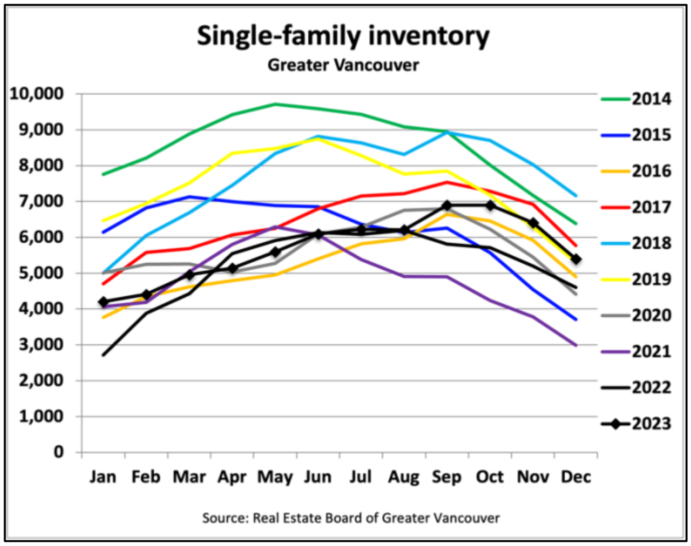
Inventory stabilizes

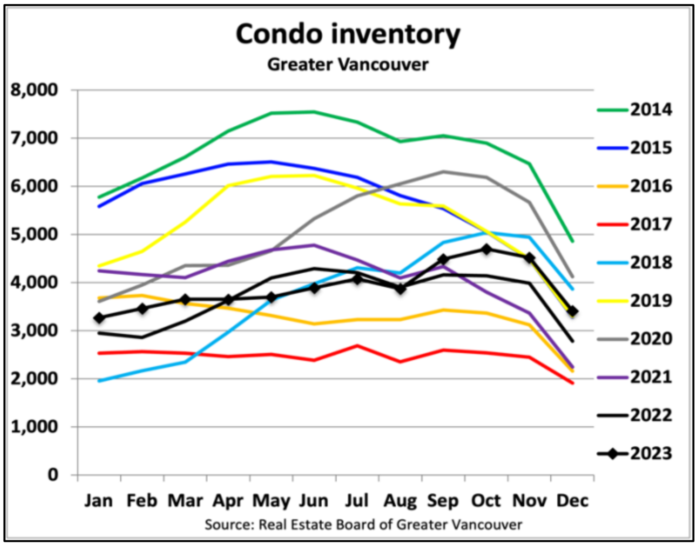
Active listings were nearly 20% higher than 2022 levels but are not "high" by any means. The fact that we are closing in on 2 years of rate hikes and there still isn't THAT much supply is a testament to how chronically undersupplied this market has been and continues to be:

Prepared For:





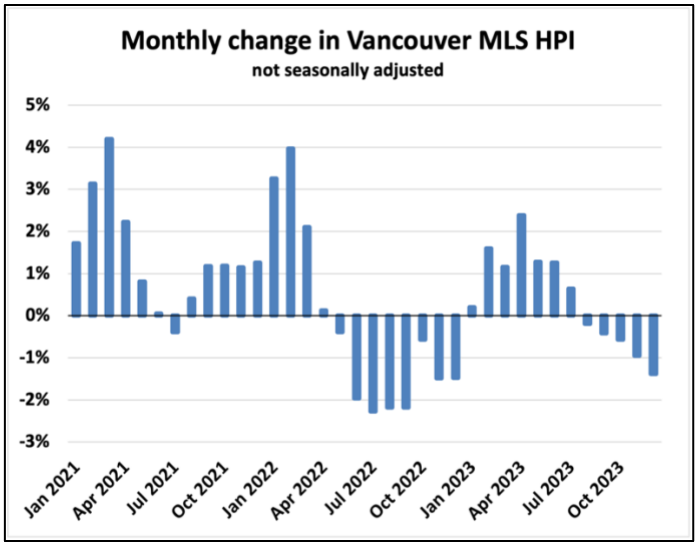


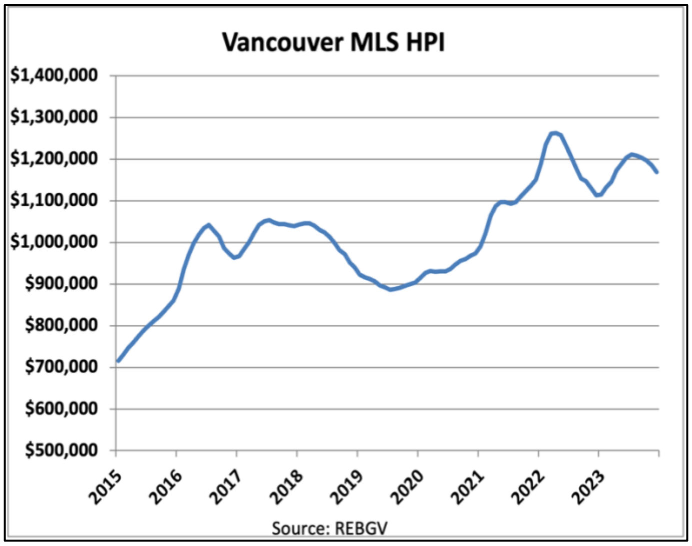


Prepared For:

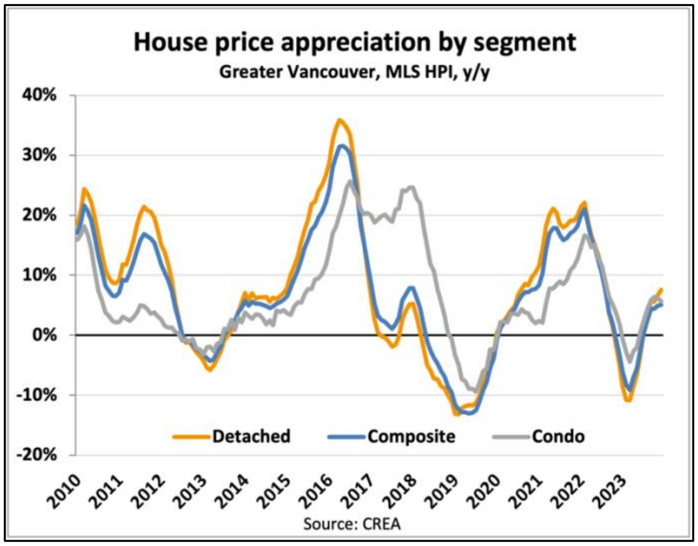
House prices tick lower

The MLS House Price Index (HPI) registered a 1.3% decline in December, including a 1.5% decline in the condo segment:





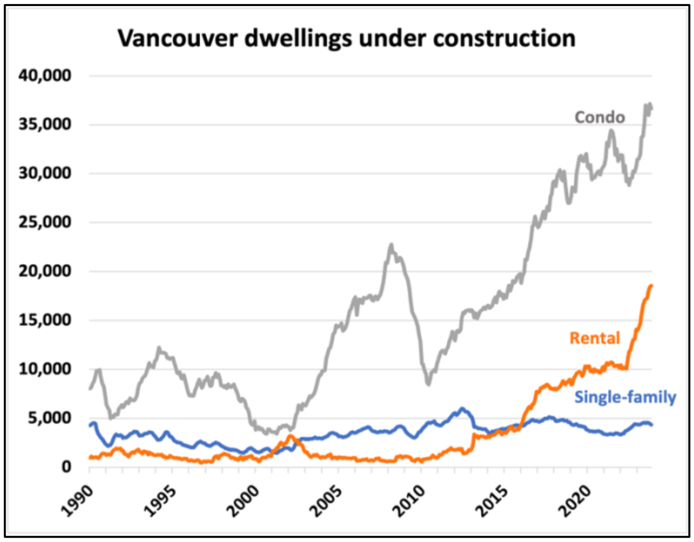
Still, that leaves prices roughly 5% higher than last year at this time, but we're starting to see early signs of a divergence between single-family and condo pricing:

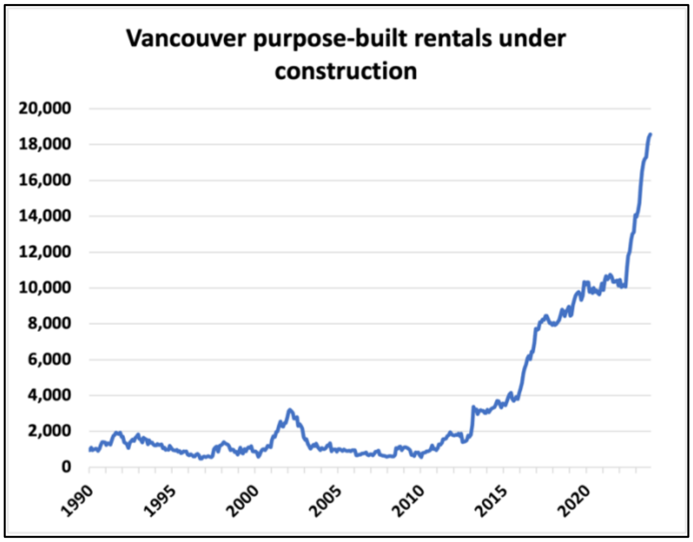


Prepared For:

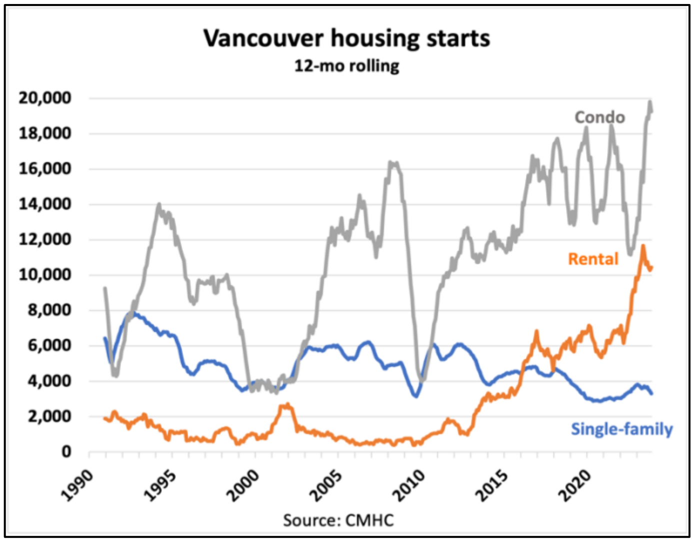
New supply falls

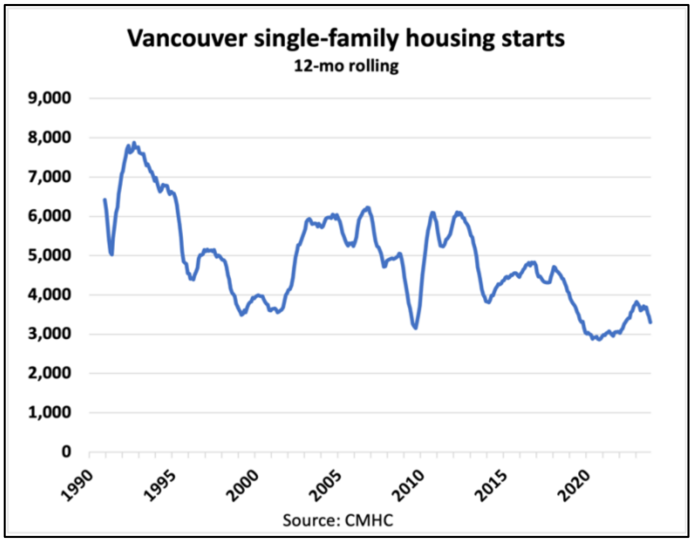
Dwellings under construction across Vancouver fell 0.8% in November as single-family and condos both saw sharp accelerations in completions. Here I want to isolate the purpose-built rental segment, which has seen one heck of a renaissance over the past couple years. There's finally some rental supply in the works:





In terms of housing starts, we continue to see a drift lower in the single-family segment that is being masked by overall stability in the headline numbers. For context, single-family starts are now as low as they were during the depths of the Financial Crisis, which means the dream of a white picket fence and a single-family home will be even more out of reach in future years if something doesn't change soon:

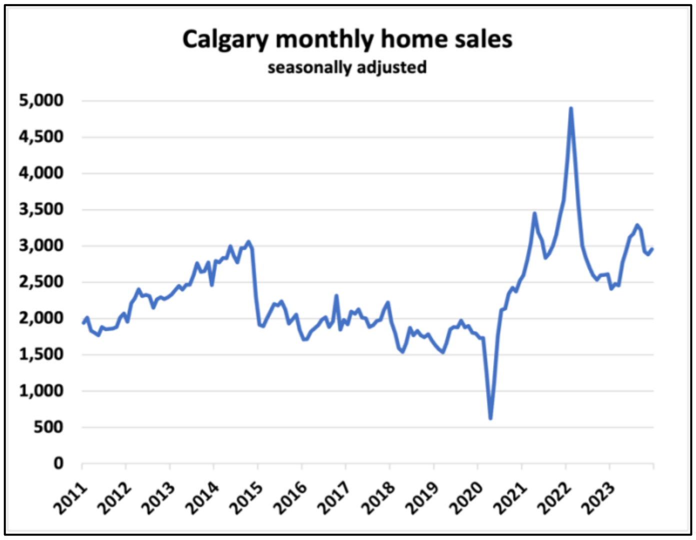


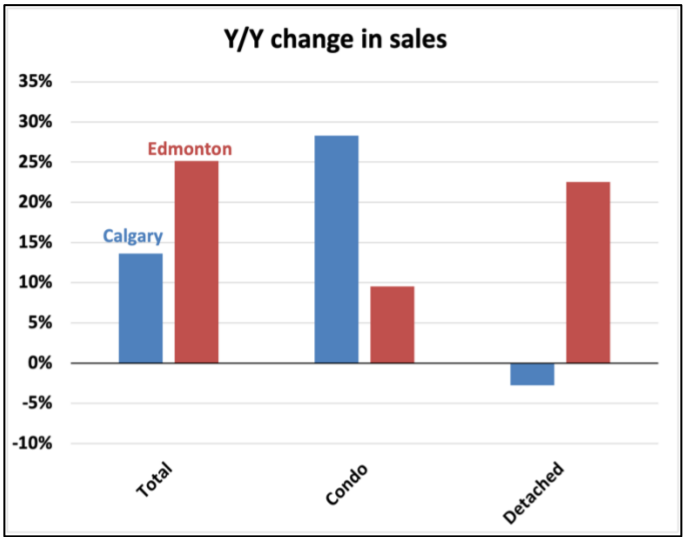


4) Calgary market moves towards balance

Home sales tick up

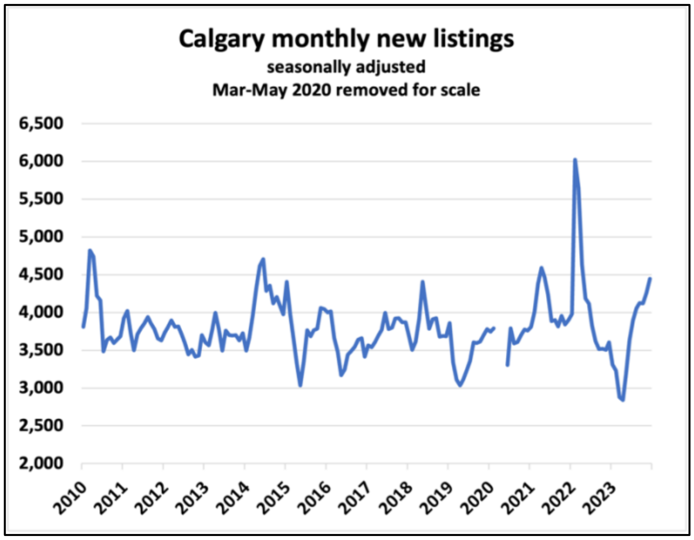
Seasonally adjusted home sales in Calgary broke a string of 3 consecutive monthly declines to rise an estimated 2.6% in December. That leaves them roughly 14% higher than last year, and up a whopping 25% in Edmonton. But I would flag that all of the y/y gains in Calgary are in the condo segment, which does make me wonder if these are end users or investors out of Ontario looking for the last remnants of cash flow and positive upward momentum:

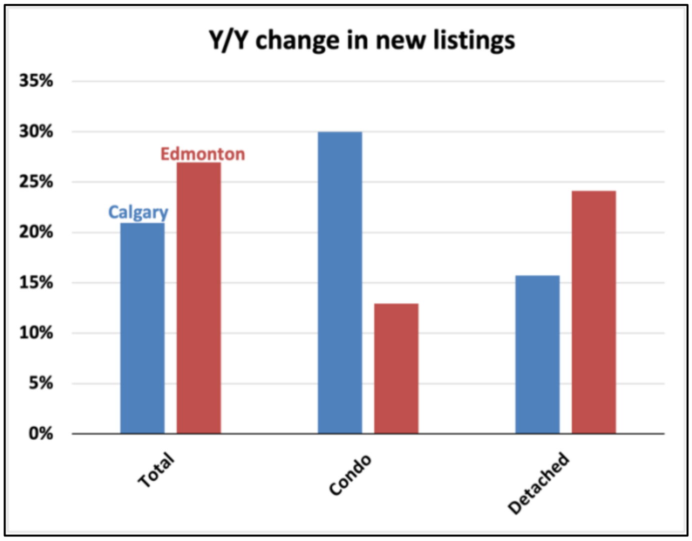




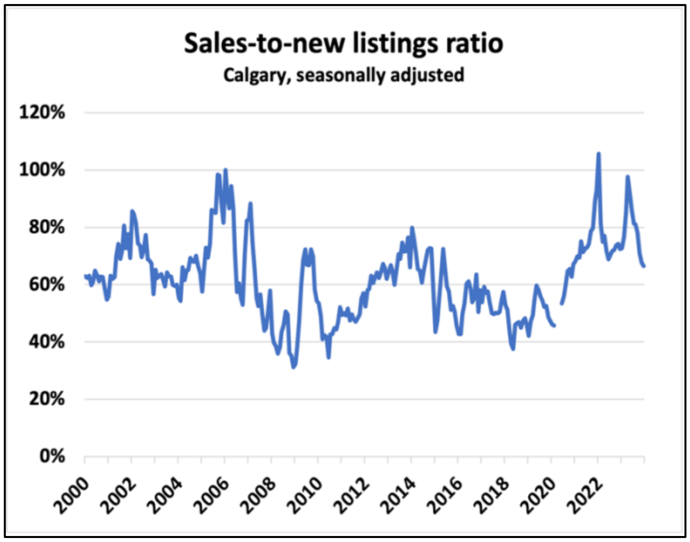
New listings jump

It appears that new listings were up roughly 4% m/m in December and are now considerably above long-term norms. So there is some supply finally starting to materialize in Calgary:



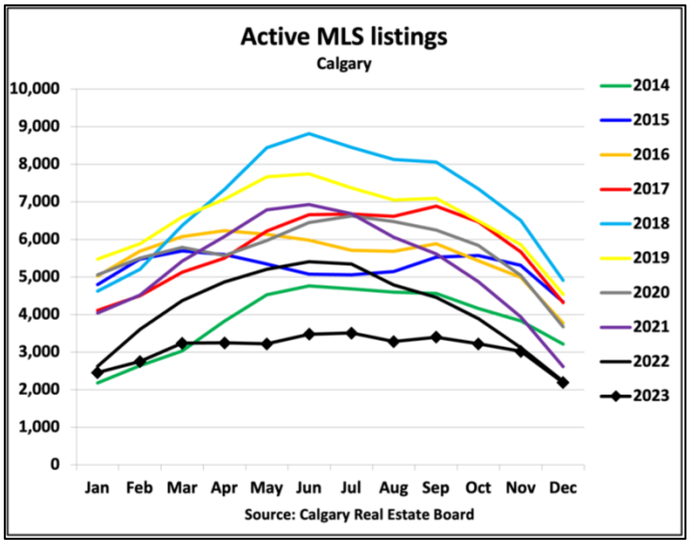


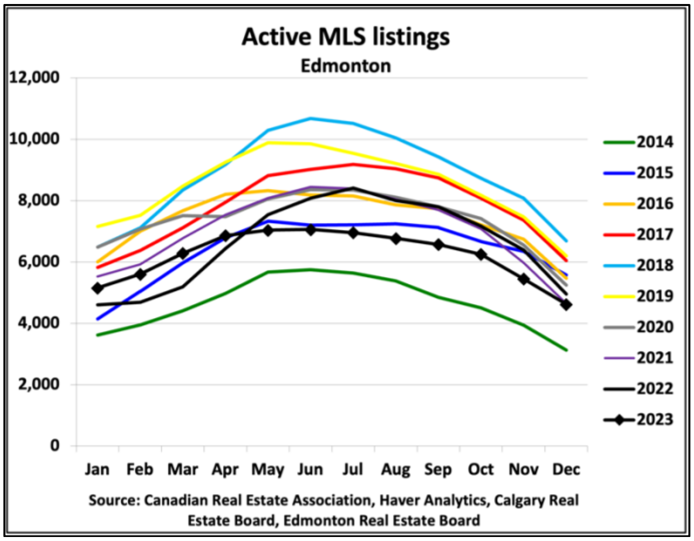
After peaking in April at a dizzying 97%, the sales-to-new listings ratio has fallen for 8 consecutive months and now sits at 66%. Still a hot market by any standards, but one that appears to be transitioning back into balance:

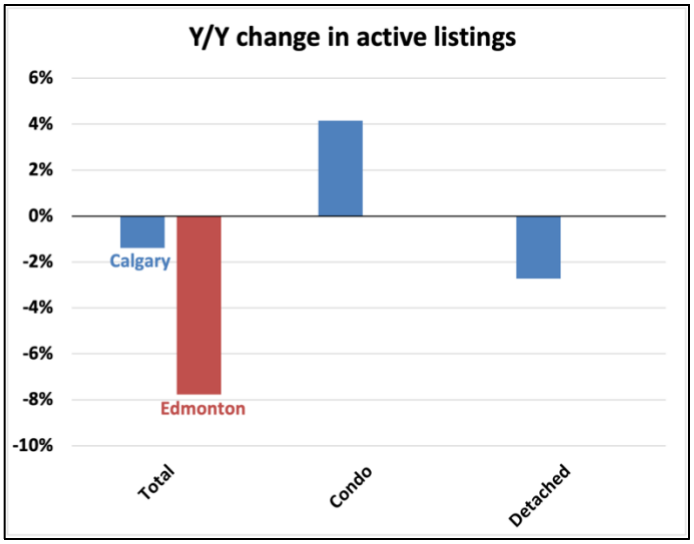


Inventory low but stabilizing

Inventory levels ended the year at decade lows in Calgary while in Edmonton they were at the second lowest levels next only to 2014:

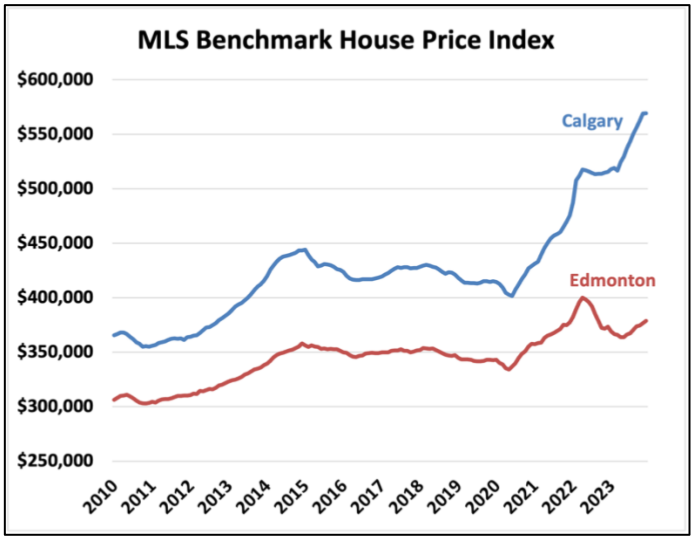


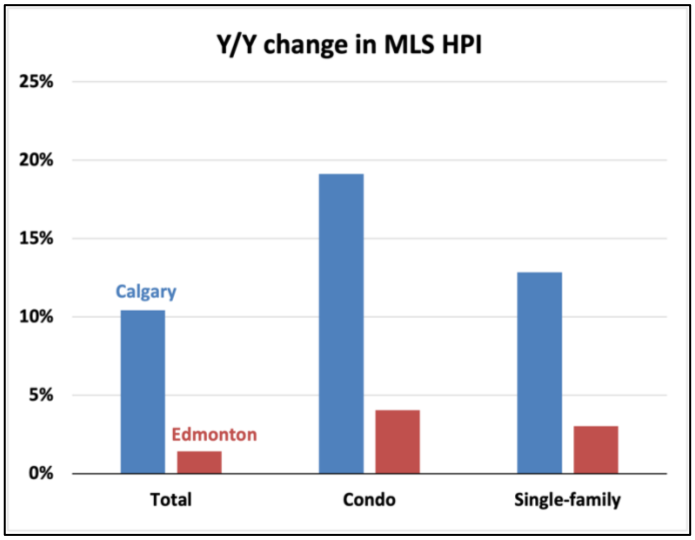




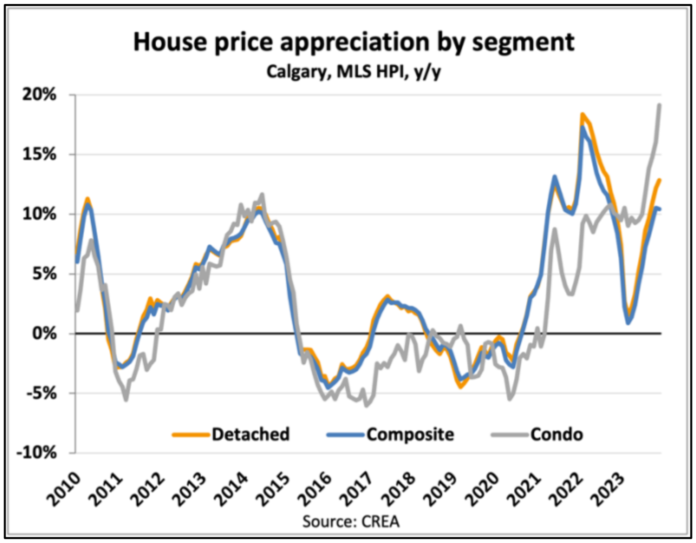
House prices continue to rise

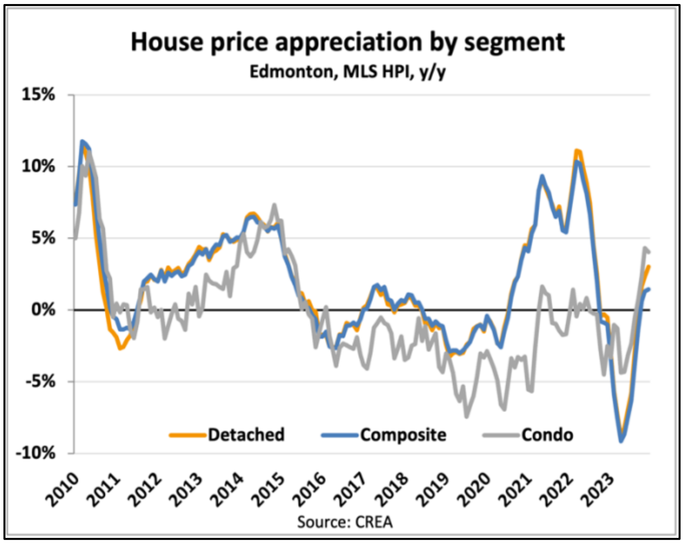
House prices eked out a modest monthly increase in both Calgary and Edmonton and both were up relative to the same time last year….with Calgary prices still up at a double digit clip:





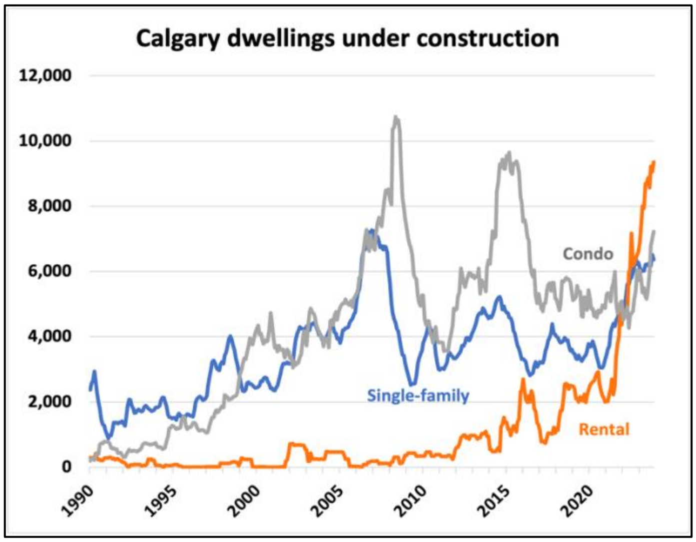
Prepared For:

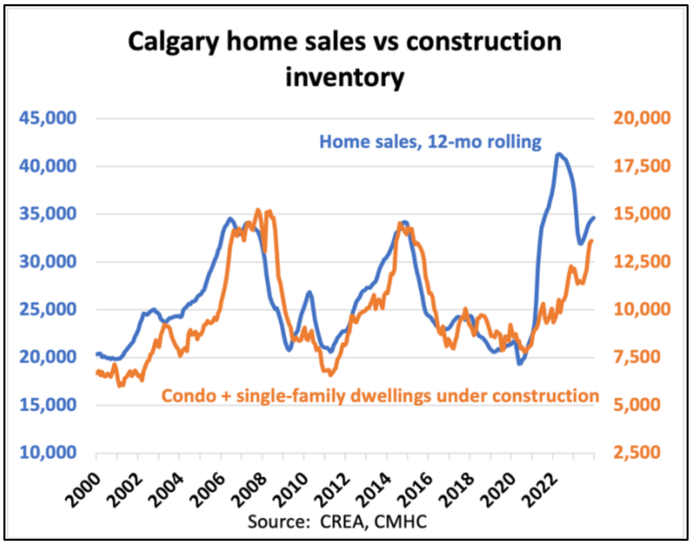




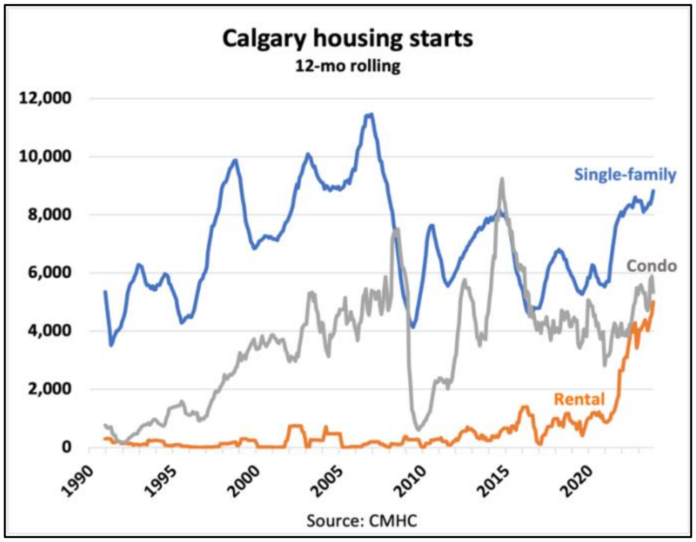
Construction activity rises again

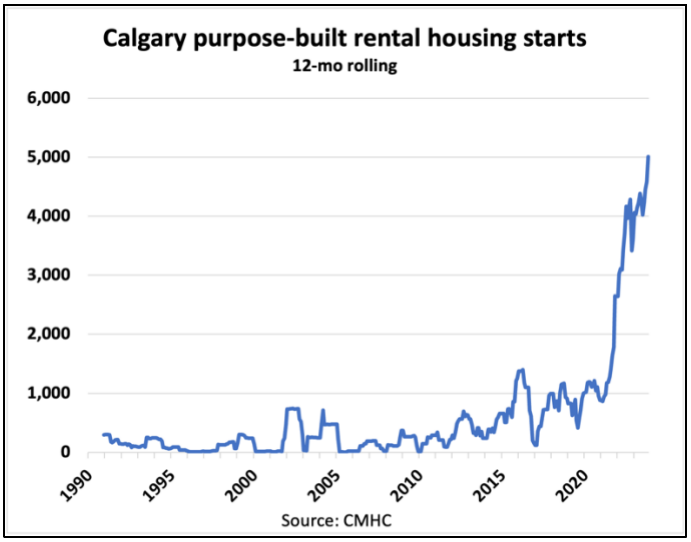
Dwellings under construction across Calgary jumped 1.6% in November, and there are now 14% more dwellings in the construction pipeline than just 6 months ago…and 19% more condo units! Here once again I would caution people that developers in Calgary (unlike their counterparts in Ontario and BC) are finally responding in scale to the persistent inventory shortages of the past couple years. And that means that we will likely see the market move back towards balance as these units begin to complete later this year. There's still plenty of long-term money to be made by investing in this market, but I suspect the easy lifting has been done.





Housing starts look solid, although arguably still not where they need to be to account for population growth. The one area to watch is on the rental side, which I've isolated below right. That's quite a chart, and I have to think that 5,000 new rental units started over the past year (and nearly 9,000 currently under construction) will certainly help take some of the froth out of that market as these units come online.





Have a great day!
Ben

Prepared For: