



July 2022 Metro level deep-dive- June data

Quick links:

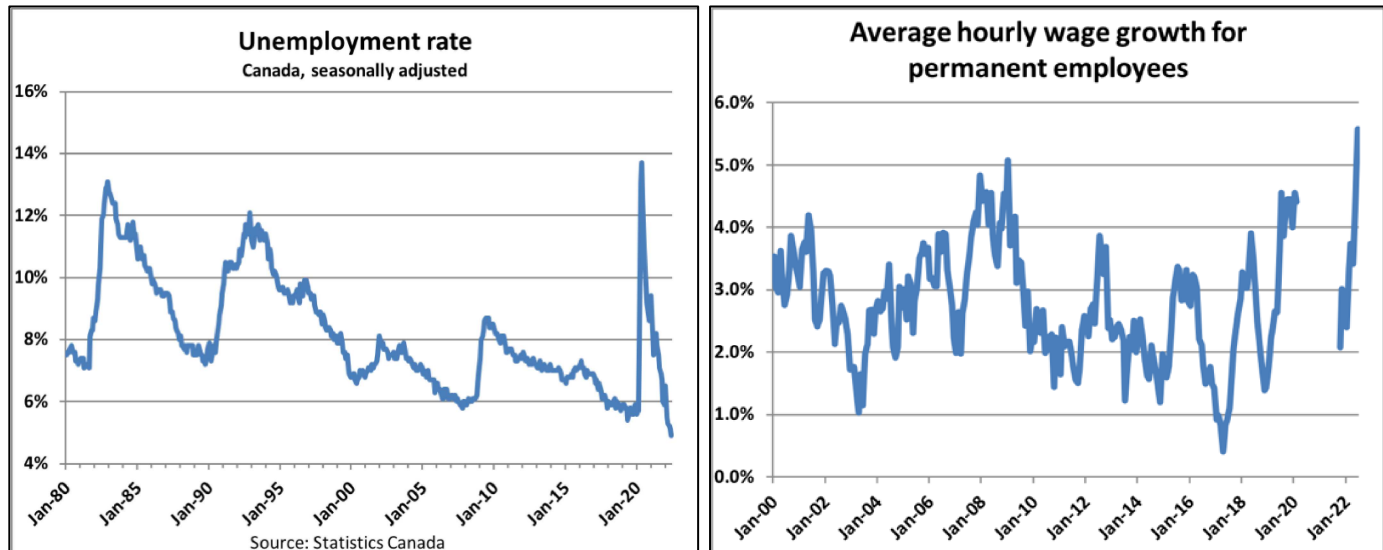
- 1) Economic commentary: Outsized rate hike next week but the end is in sight**
- 2) Toronto home sales hit 20-year lows in June**
- 3) Vancouver home sales slide, prices begin to soften**
- 4) Alberta still holding firm**

Key takeaways:

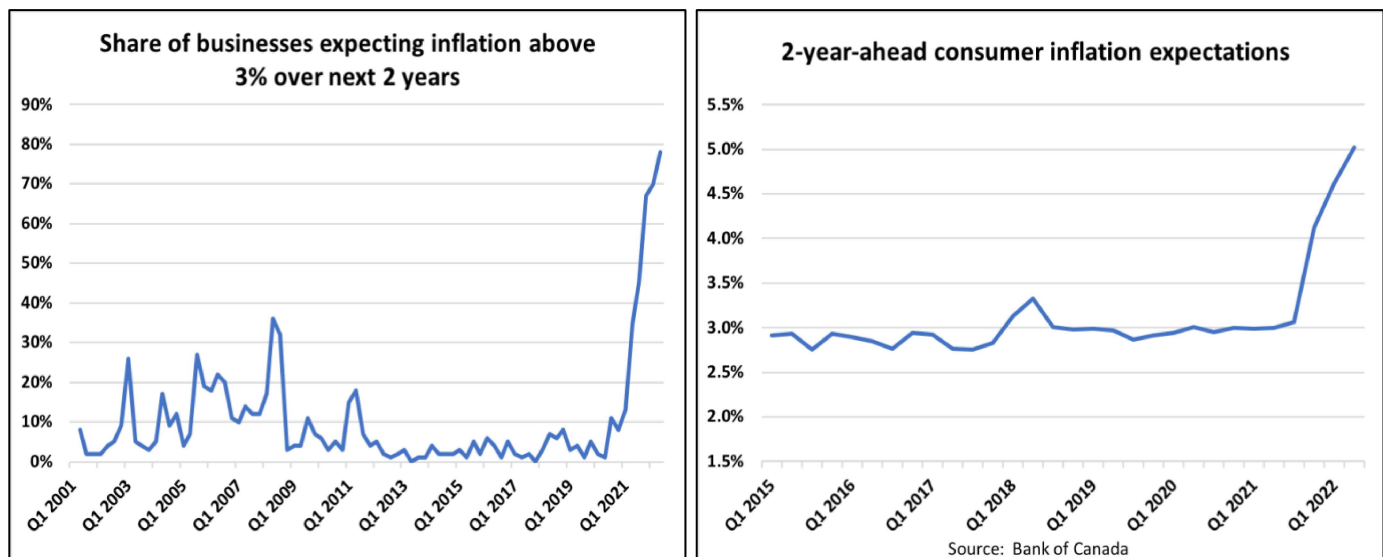
- Expect an outsized interest rate hike next week...likely to the tune of 75bps or 0.75%....but there are signs that the inflationary “fever” might be starting to break.
- Housing affordability pressures are weighing on demand across southern Ontario and BC. Prices are under pressure but the MLS House Price Index is understating the extend of the declines.
- Things are different in Alberta where sales are off only marginally from record levels last year at this time. Alberta housing is starting to outperform the rest of the country, a trend I expect to persist for some time.

1) Economic commentary: Outsized rate hike on deck next week but the end is in sight

For all the talk of recessionary concerns, the Canadian economy continues to chug along just fine. Sure, employment slipped a little in June on the back of a suspiciously large decline in self-employed workers, but the unemployment rate fell below 5% for the first time on record. And at the same time, wage growth hit the highest levels in over 20 years if we set aside the 18 months immediately after the start of the pandemic which wreaked havoc on official wage data:



There's good news and bad news in all of that. For the Bank of Canada, strong wage growth and an exceedingly tight labour market mean inflationary pressures. Compounding that issue, the latest survey data for Q1, released last week, shows that both businesses and consumers have extremely elevated inflation expectations. That's a problem since people who think inflation will STAY high are more likely to spend more today on goods and services to try to front run those price gains....and in the process, that extra demand creates the very inflation they are concerned about.

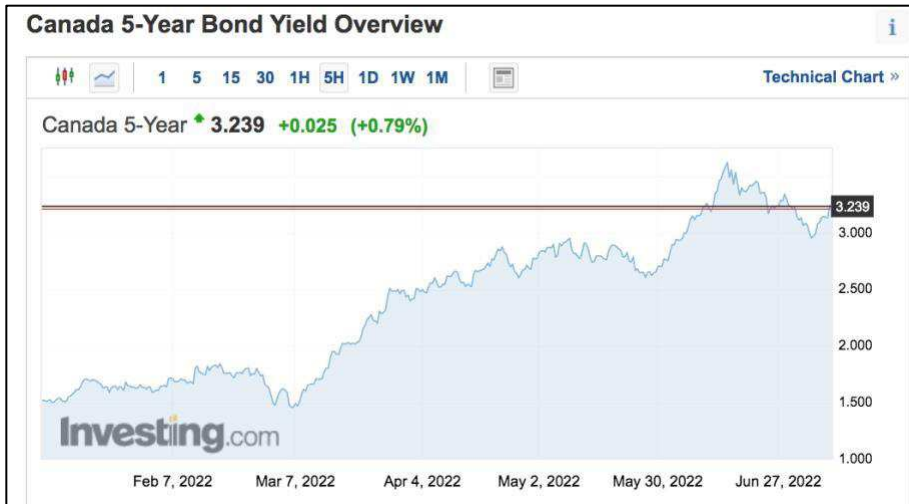


It's a real pickle for a central bank, and it's only resolved by breaking the inflationary mindset, which usually means hiking rates to the point that it induces a recession or pretty close to it. We should expect at least a couple more outsized rate hikes coming, with a 0.75% increase likely on July 13th.

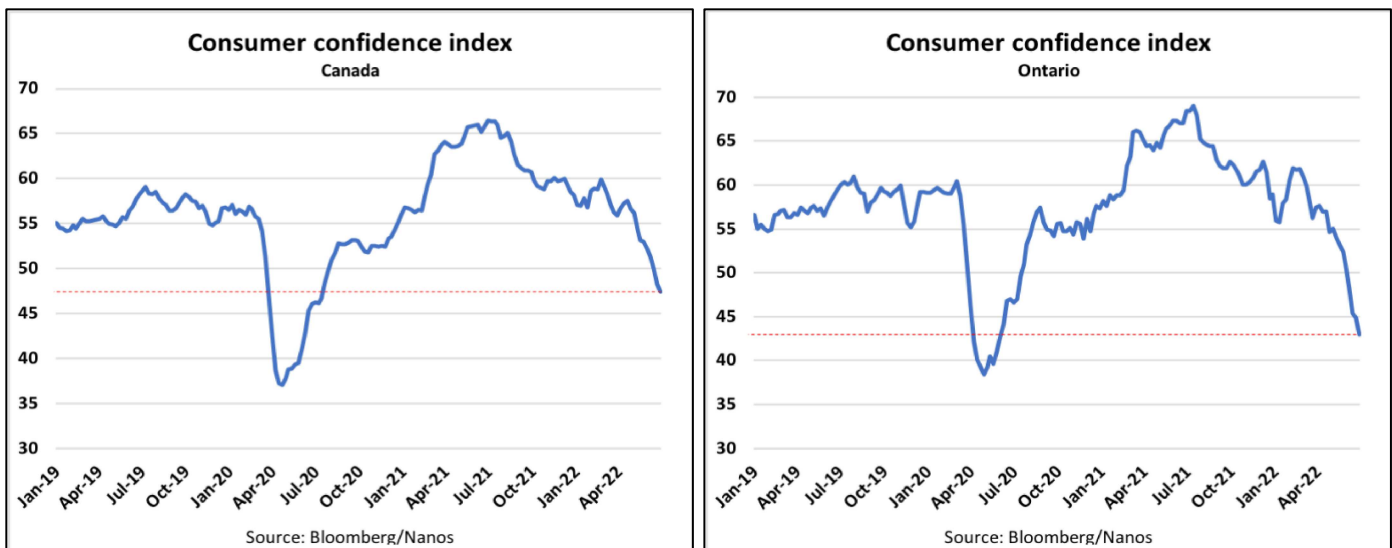
Now keep in mind, those readings were as of Q1, and a LOT has changed since then. For starters, we finally have

some tentative signs that the inflationary fever might be about to break. Check out the price of gasoline. It was at a record \$2.13/L nationally just 3 weeks ago but today is closer to \$1.90/L. That's true right across the commodity complex. Everything from natural gas to copper to tin to lithium has fallen sharply over the past 2 months on account of global recession concerns.

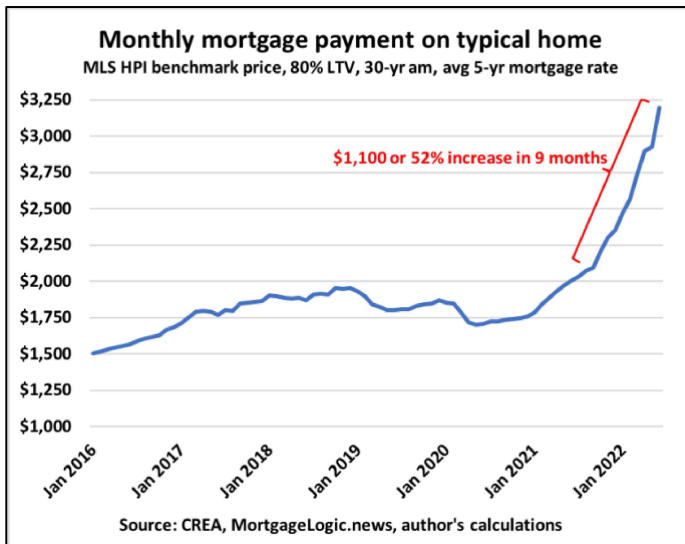
Bond yields are reflecting this potential easing of inflationary pressures. The all-important 5-year Government of Canada bond yield has pulled back to 3.24% at the time of writing after hitting a high of 3.61% in mid-June. That means fixed mortgage rates will pause for now until we get a definitive read on how the Bank of Canada is thinking about the inflation problem next week:



There's also the issue of confidence. As I said previously, the Bank of Canada is going to hike until people are more fearful of a recession than they are of inflation...ie they are going to "break the inflation mindset". I think we're getting close to that. Check out what's happening with confidence nationally, and in particular in Ontario where people are almost as pessimistic as they were at the beginning of the pandemic:

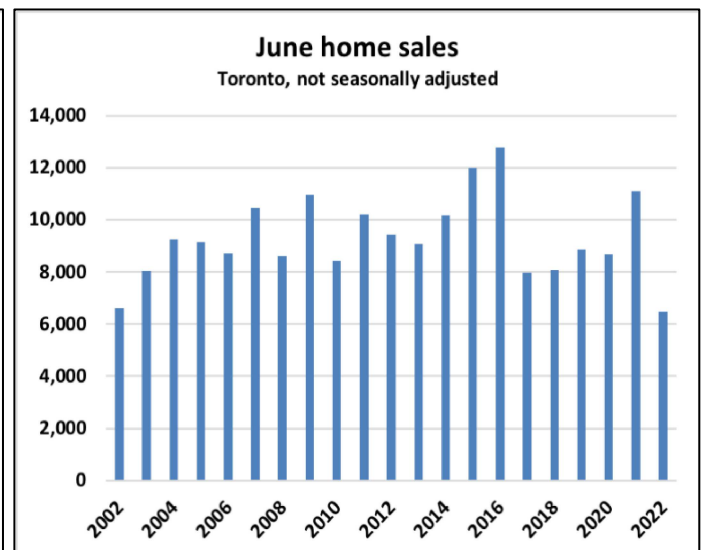
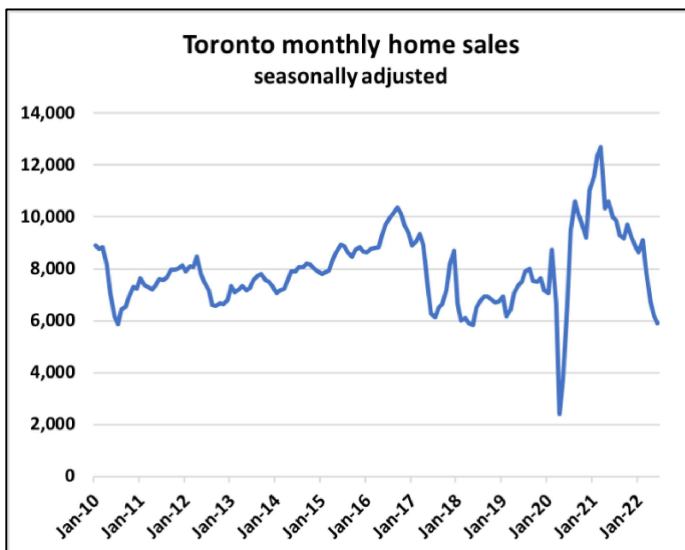


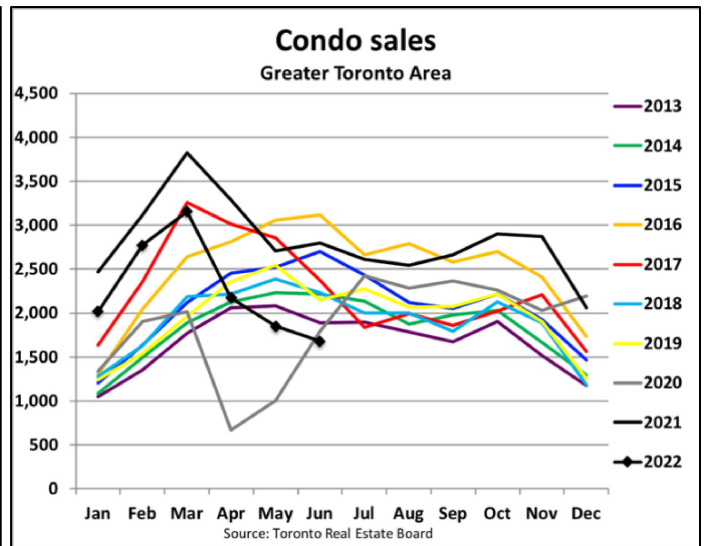
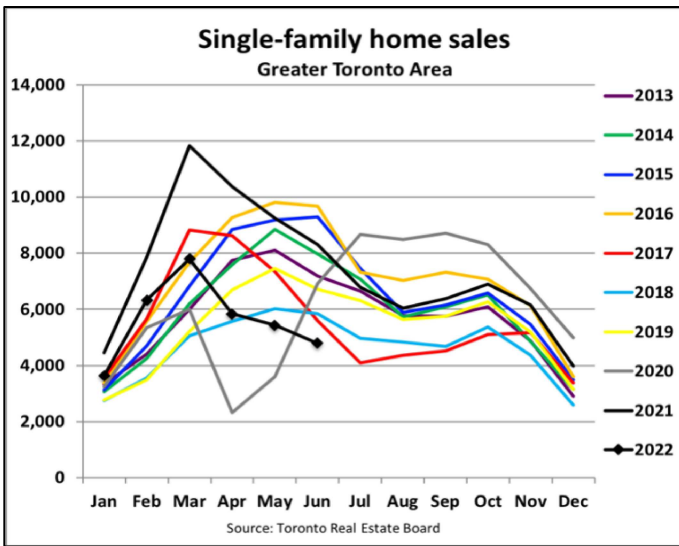
So putting it all together, the Bank of Canada still has to hike on July 13th and maybe one more time, but there appears to be light at the end of this tunnel. The bad news is that rates are already sufficiently high to seriously damage affordability nationally. The monthly payment needed to carry the mortgage on a home purchase today at prevailing prices and rates are 52% higher than just 9 months ago. Until that breaks via falling rates (unlikely) or falling prices, we're probably going to be in a weak housing demand environment.



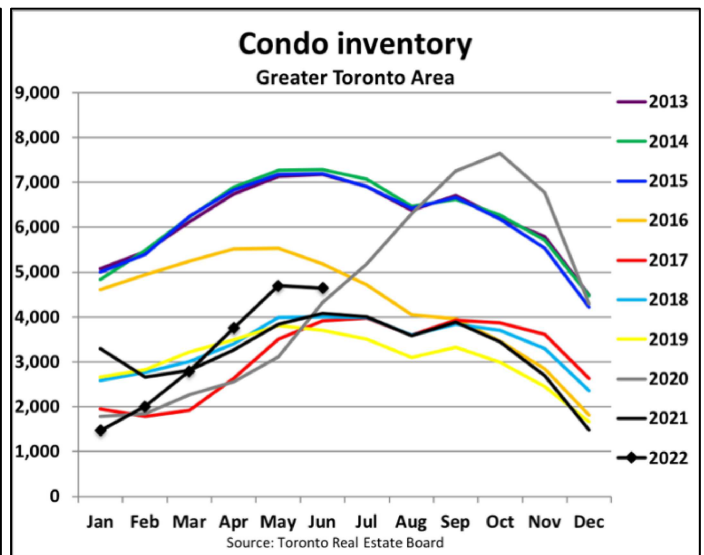
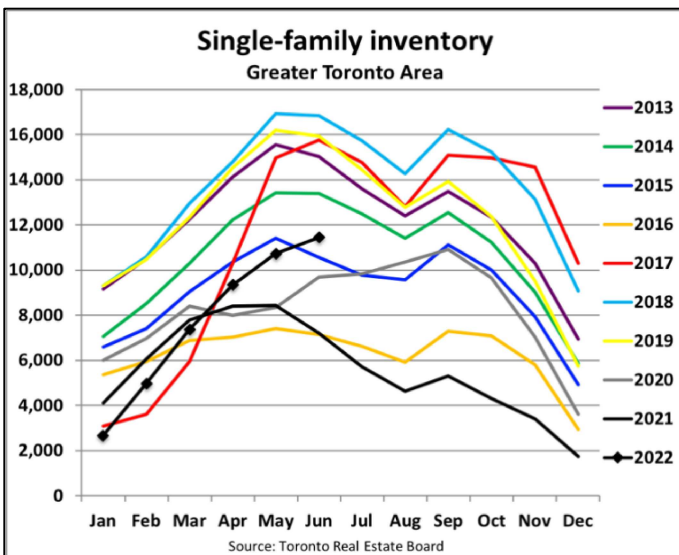
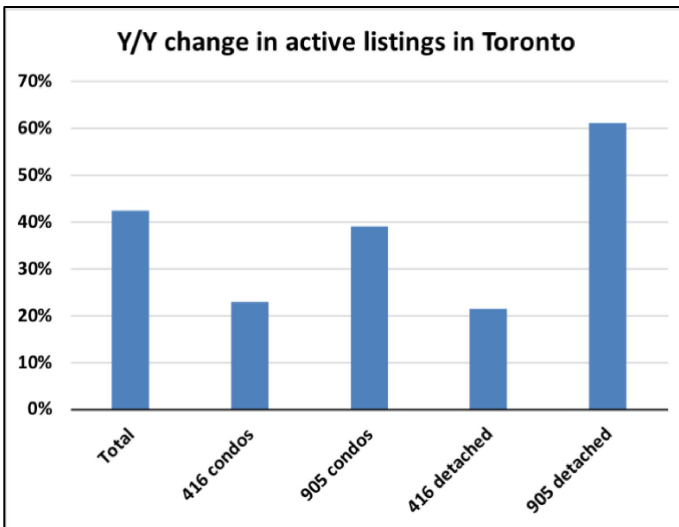
2) More price pressure in Toronto as sales tumble again, condo market weakens

Home sales in Toronto slumped another 4.7% m/m seasonally adjusted and were down 41% y/y last month to register the lowest June tally since the 1990s:

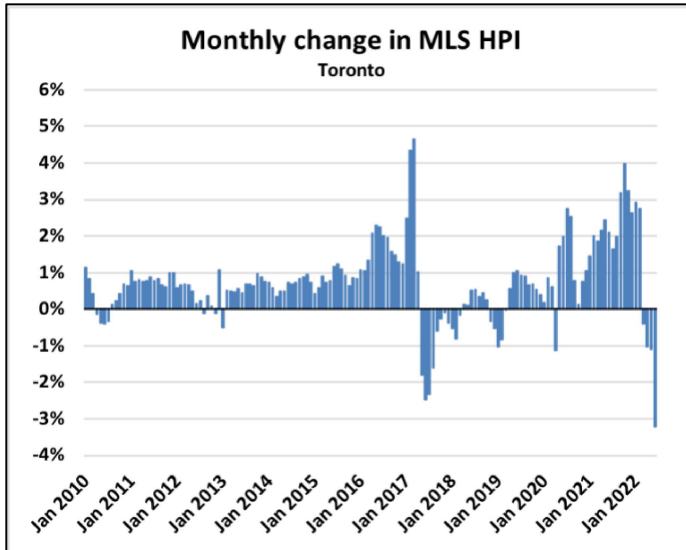




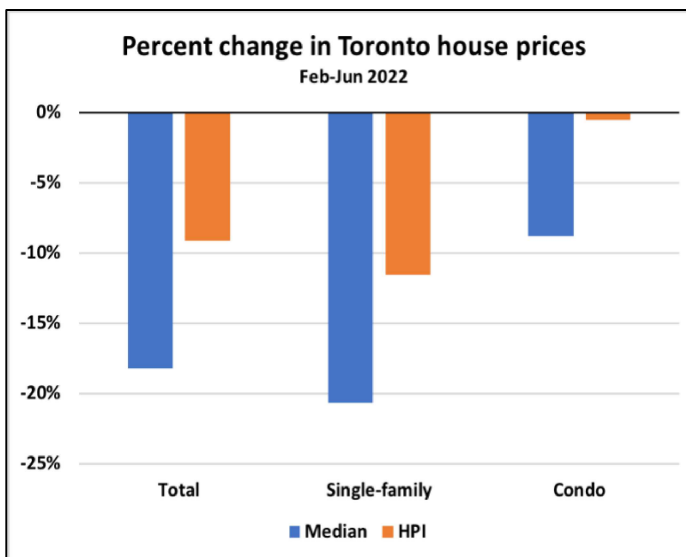
Active listings were up 43% y/y led by a sharp increase in single-family inventory in the suburbs:



On the pricing front, the MLS HPI registered the largest monthly decline since at least 2005 in June:



But there's reason to think that the HPI's reported 8% decline from peak is understated. For starters, median prices are down closer to 20% off peak levels:




Further, reports from practitioners in the space suggests a decline from peak closer to 20%. Consider:

How falling home prices are leading to growing appraisal gaps- *Canadian Mortgage Trends*

[...] Jim Turloukis, president of Verico Advent Mortgage Services, knows at least one of them. A client came to him after buying a home through another broker in February for \$1.02 million. The original broker didn't do the appraisal quickly, and the close is set for mid-July. Their recent appraisal came back at just \$830,000...“They're short \$190,000...They can't close. We're going to the Bank of Mom and Dad to make up the difference because the bank will only lend up to 80%.”

[...] **Turloukis said he's seen house prices drop 20% from their peak in cities around Toronto, particularly Oshawa and Hamilton.**

We also continue to see steep declines across southern Ontario on same-unit sales where the original buyer from the Feb-Mar period failed to close, with many selling for 20-30% less than the prior sale. Some recent samples:




94 Runnymede Rd
Toronto - High Park-Swansea
Detached

Listed for: \$1,195,000
Sold for: \$ 1,475,000
Sold 17 days ago

3+1 Bedrooms 2 Bathrooms 1 Garage

Listing History
Buy/sell history for 94 Runnymede Rd, Toronto (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-06-16	2022-06-17	\$1,475,000	Sold	W5662822
2022-03-23	2022-03-28	\$1,800,000	Sold	W5548227




30 Warnford Circ
Ajax - Northeast Ajax
Semi-Detached

Listed for: \$999,000
Sold for: \$ 990,000
Sold 6 days ago

3+1 Bedrooms 3 Bathrooms 1 Garage

Listing History
Buy/sell history for 30 Warnford Circ, Ajax (Semi-Detached)

Date Start	Date End	Price	Event	Listing ID
2022-06-22	2022-06-28	\$990,000	Sold	E5669690
2022-02-17	2022-02-22	\$1,305,000	Sold	E5506272




Unit 16 - 255 Northlake Drive
Waterloo
Row/Townhouse

Listed for: \$499,900
Sold for: \$ 530,000
Sold 5 days ago

3 Bedrooms 2 Bathrooms 0 Garage

Listing History
Buy/sell history for Unit 16 - 255 Northlake Drive, Waterloo (Row/Townhouse)

Date Start	Date End	Price	Event	Listing ID
2022-06-15	2022-06-29	\$530,000	Sold	40279271
2022-05-31	2022-06-15	\$530,000	Terminated	40267773
2022-03-22	2022-03-30	\$738,888	Sold	40227297
2021-01-08	2021-01-18	\$530,754	Sold	40055500



767 William Street
Cambridge - Preston Centre
Single Family Residence

Listed for: \$575,000
Sold for: \$ 575,000
Sold 7 days ago

4 Bedrooms 3 Bathrooms 2 Garage

Listing History
Buy/sell history for 767 William Street, Cambridge (Single Family Residence)

Date Start	Date End	Price	Event	Listing ID
2022-06-15	2022-06-27	\$575,000	Sold	40277832
2022-03-10	2022-03-18	\$808,000	Sold	40218937

These failed closings are going to take a while to filter through the system. Even this week, personal finance Reddit here in Canada had multiple posts asking for advice on what to do if a buyer backs out of a deal:

reddit PERSONALFINANCECANADA comments other discussions (1)

Housing **Home Buyer may back out.** (self.PersonalFinanceCanada)
submitted 21 hours ago by buntybunty384

Hello all, need help and suggestion. My realtor informed yesterday about home buyer having difficulties to sell his property and my closing is in 3rd week of July. If buyer will back out than I can't purchase and closing is on the same date too. Never been in this situation and looks like I will be sued and will have to sue also. 🙄🙄

293 comments share save hide give award report crosspost

Housing **If a buyer backs out of a real estate deal, realistic is there a good chance the seller will win the lawsuit for damages?** (self.PersonalFinanceCanada)
submitted 20 hours ago * by Not The Ben Felix Joey-tv-show-season2

I have a friend is going through this as he is buying a bigger house and selling his current house. The buyer of his current house may not close as he is having difficulty selling his current home. There were no conditions on the sale.

So realistically can my friend successfully sue him? Damages could amount to \$200,000 as was sold at the peak and this amount of damages if true would likely bankrupt the buyer and result in them forcing to sell the home to pay I am assuming.

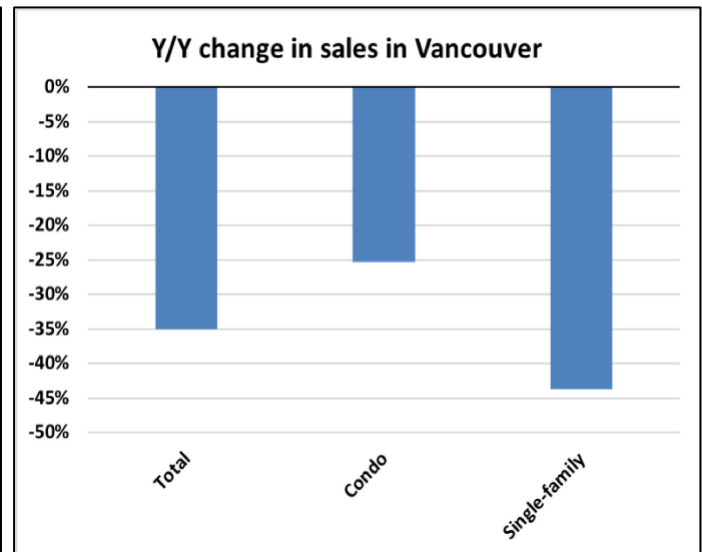
But can anyone with experience say if that typically happens ? Or do people just walk away and let it go?

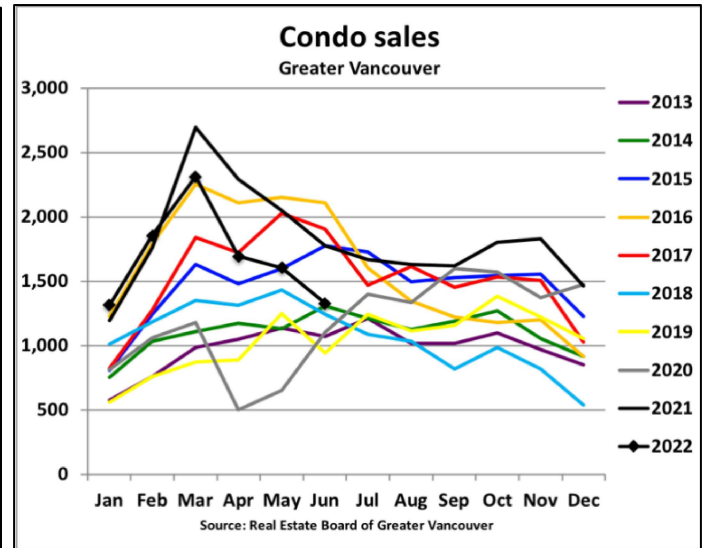
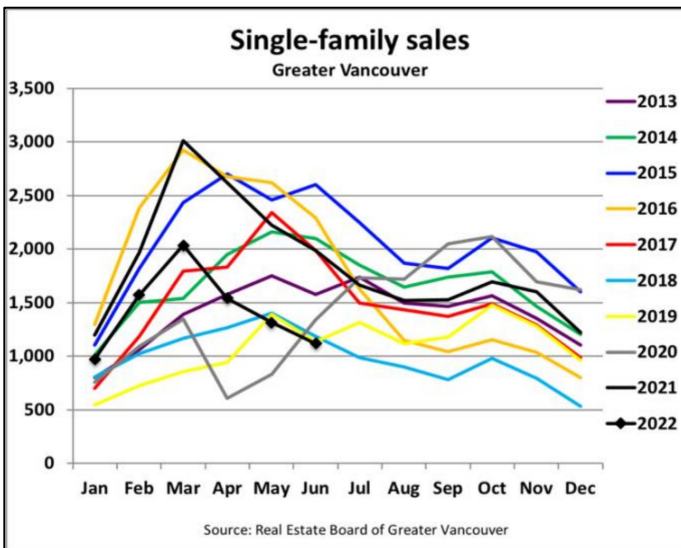
187 comments share save hide give award report crosspost

As I've said since this housing downturn started, we won't really know the true state of this market until these distressed sales work through the system later this summer. It is encouraging however that new listings in June were effectively flat from last year and were in line with decade averages. There's no "rush for the exits"...at least not yet.

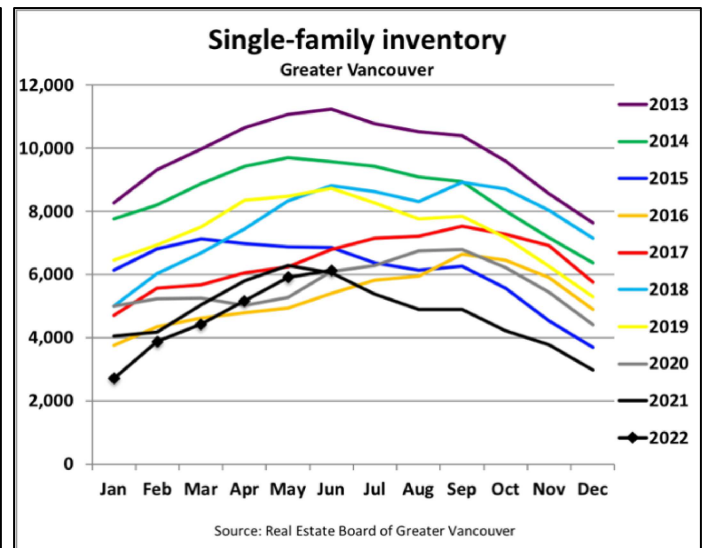
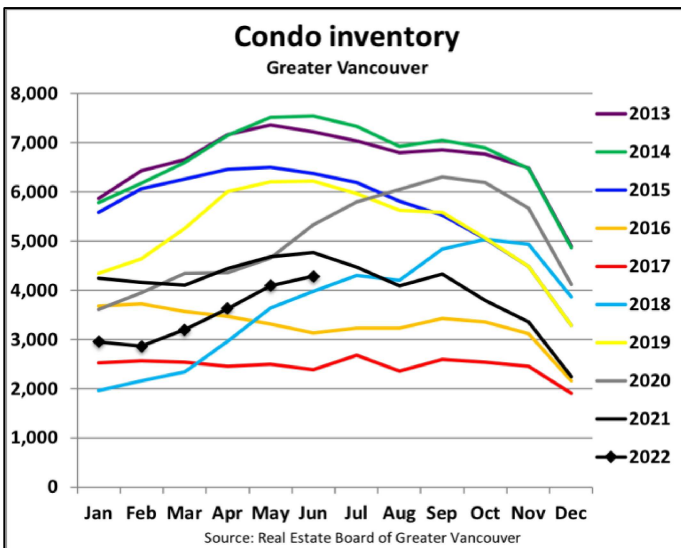
3) Vancouver home sales slide, prices begin to soften

Over in Vancouver, home sales fell an estimated 9% m/m seasonally adjusted in June and were down 35% compared to a year earlier led by a 44% plunge in single-family transactions:

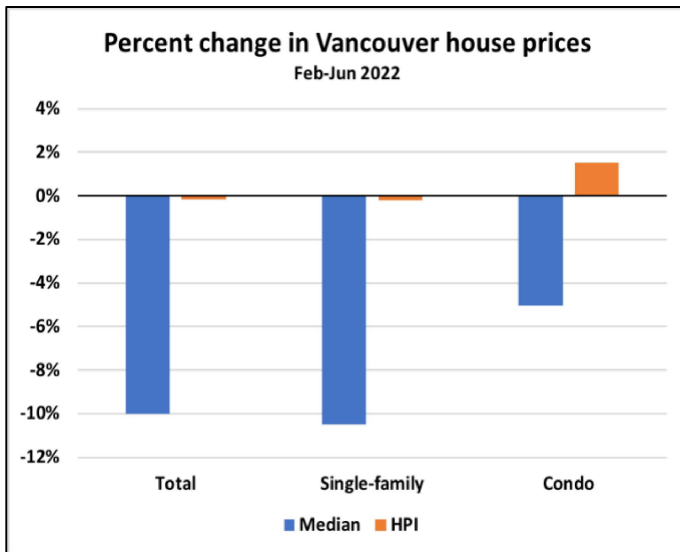




Inventory levels continue to rise but are still below 2021 levels overall:



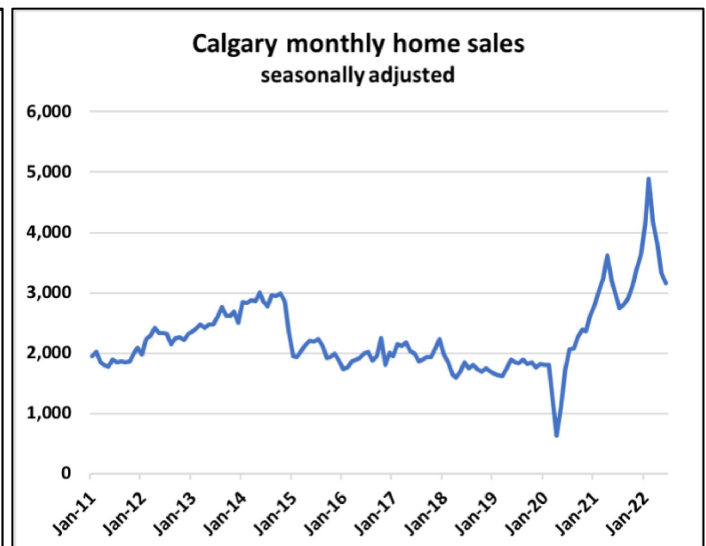
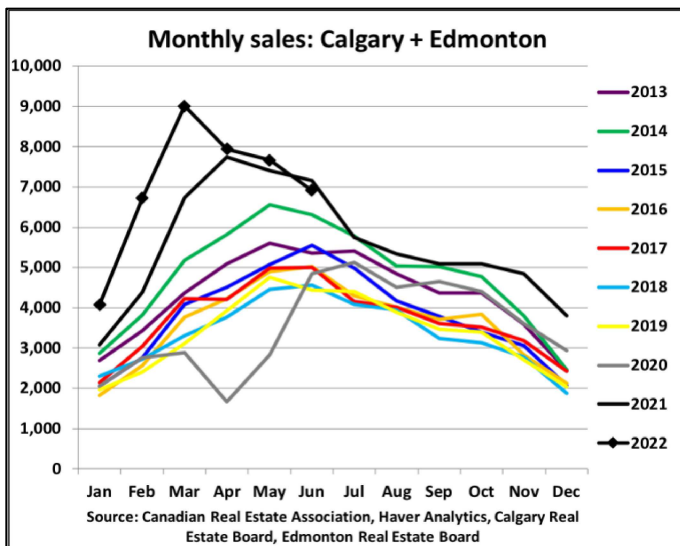
Price declines are more muted than in Toronto, but here too the officially reported MLS HPI is almost certainly understating things. Headline HPI is effectively flat from February and is even up in the condo segment but median prices are down sharply across all segments:



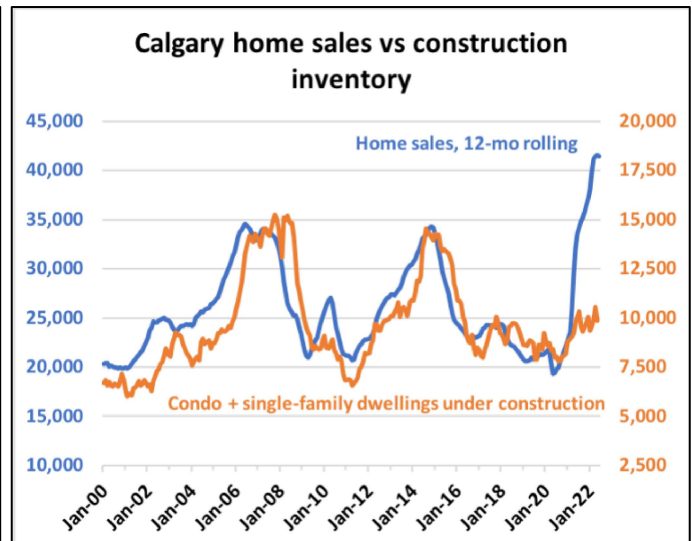
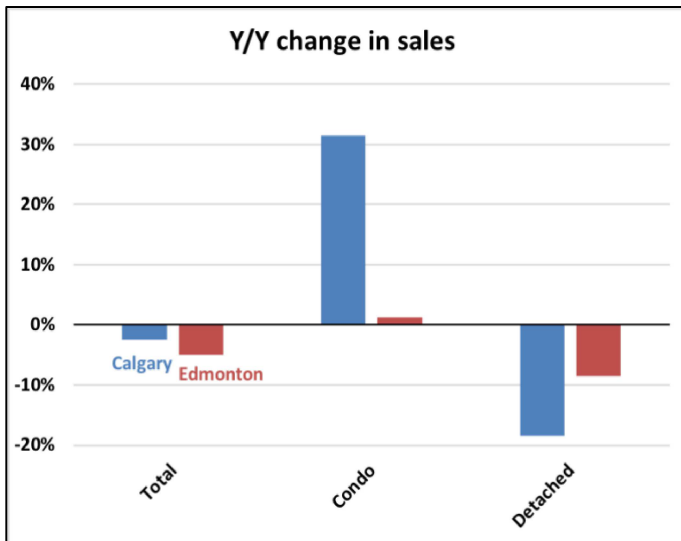
The explanation is that the HPI methodology deliberately smooths price changes by stripping out “outliers” that deviate too much from the long-term trend...which becomes problematic when distressed sales make up a growing portion of total demand. In other words, the HPI is great except at times when markets inflect sharply which is where we are right now.

4) Alberta still holding firm

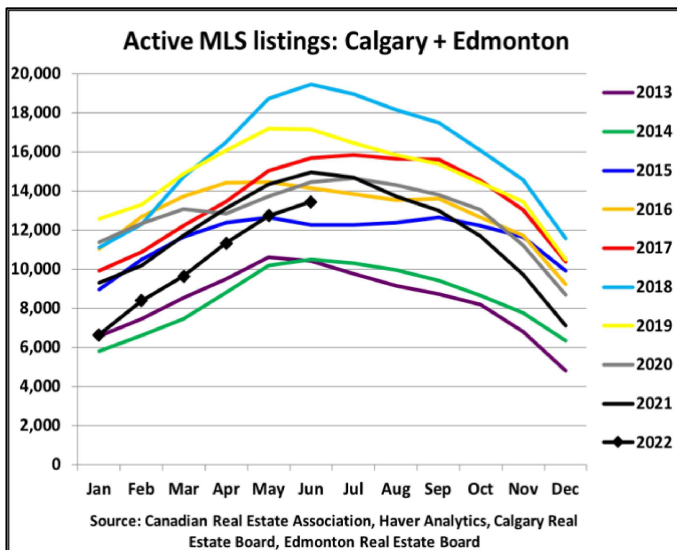
In the context of a 41% y/y decline in sales in Toronto and a 35% drop in Vancouver, the 2% decline in Calgary off record highs looks pretty good. Sure, sales did fall nearly 5% m/m on a seasonally adjusted basis and are down 30% off peak levels, but things here still look pretty good.



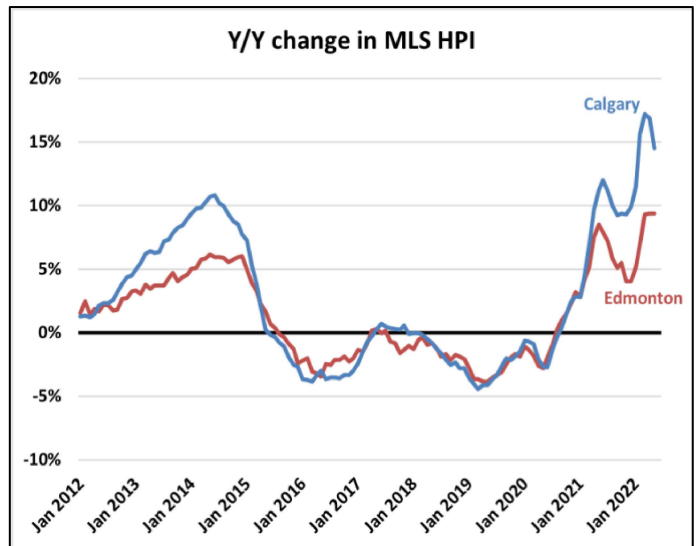
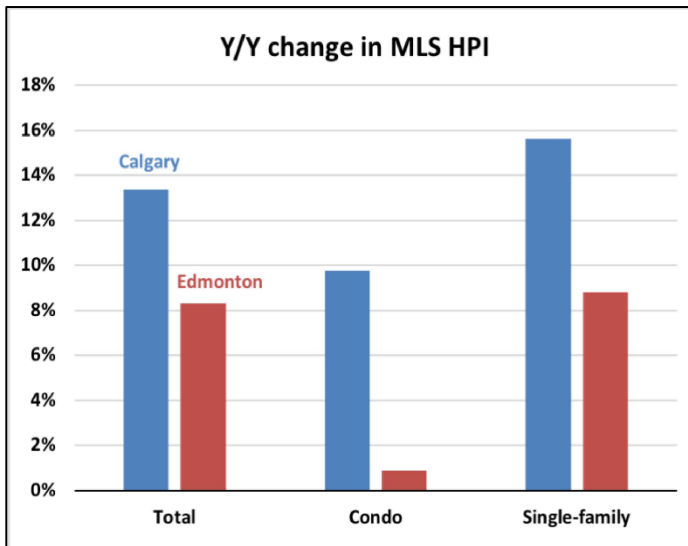
I’m not going to lie, the massive outperformance in the condo segment in Calgary, coupled with anecdotes of “hot money” flowing in from southern Ontario, has me a tad concerned, but I also don’t see the supply response yet on the part of developers that might upend this market:



New listings coming to market were down 2% last month while active inventory was 22% below year-ago levels:



House prices dipped a bit m/m but the annual growth rate in Calgary's house price index is still nearly 14%...just a touch behind the annual gains in Toronto and closing that gap quickly. I still think Alberta generally and Calgary specifically is set for a period of outperformance relative to the rest of the country:



Regards,
Ben