



June 2022 Metro level deep-dive- May data

Quick links:

- 1) Economic commentary: Bank of Canada signals more rate hikes may be needed**
- 2) More price pressure in Toronto as sales tumble again, condo market weakens**
- 3) Vancouver home sales slide, prices begin to soften**
- 4) Alberta sales slow, prices stall. Are condo speculators moving this market?**

Key takeaways:

- Comments from the Bank of Canada last week suggest that they may have to raise rates even more aggressively than previously believed. Bond yields surged and now risk another round of fixed rate hikes.
- The housing market in Toronto continues to weaken at the margins, but we're still waiting for distressed sales to clear before getting a better read on the true state of the market. The steep deterioration in rental economics on new condo purchases is something to watch as it could portend a much steeper slowdown in demand going forward.
- Vancouver sales are under pressure but there's been a lid on inventory so far. Prices are weakening at the margins even if it's not showing up in the official data yet.
- Alberta looks good all things considered. We just saw a very steep slowdown in sales but inventory levels are stable and new construction activity remains muted. The surge in condo demand is a bit odd and suggests that maybe speculators are making their way out west to chase the last bit of momentum in a big Canadian city. It's not enough to turn me bearish on Calgary, but it is something to watch.

1) Economic commentary: Bank of Canada signals even more rate hikes may be needed

The Bank of Canada hiked rates 50bps as expected last week, but the more interesting takeaway was the tone in the press release on Wednesday and Deputy Governor Beaudry's speech on Thursday.

Among the key lines in the press release following the decision:

- The risk of elevated inflation becoming entrenched has risen. The Bank will use its monetary policy tools to return inflation to target and keep inflation expectations well anchored.
- Canadian economic activity is strong and the economy is clearly operating in excess demand.

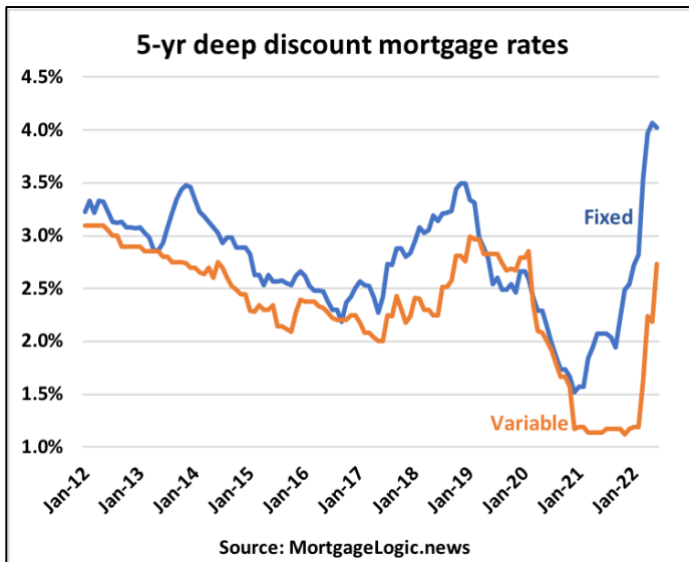
And Beaudry's speech:

- The bottom line is that the risk is now greater that inflation expectations could de-anchor and high inflation could become entrenched.
- ...Price pressures are broadening and inflation is much higher than we expected and likely to go higher still before easing. This raises the likelihood that we may need to raise the policy rate to the top end or above the neutral range to bring demand and supply into balance and keep inflation expectations well anchored

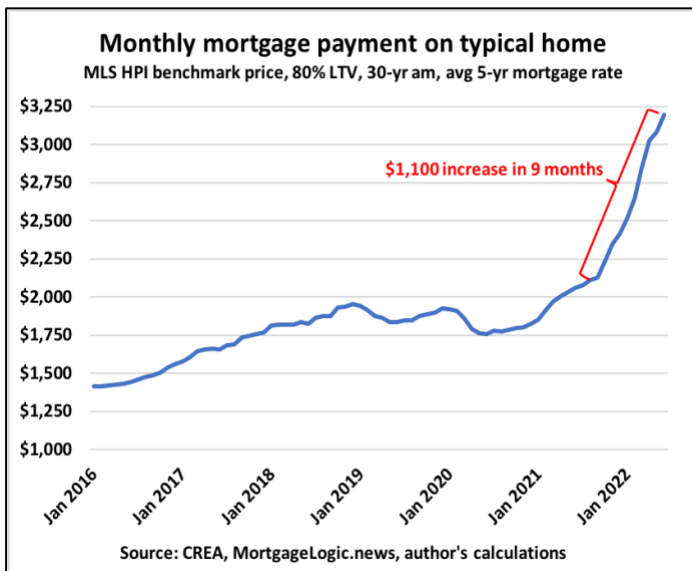
As I discussed in last week's subscriber Zoom call, bond yields were already pricing in another 150bp (1.5%) increase from the Bank of Canada, which means the only way that they would move higher (and push fixed rates with them) was if the Bank signaled that they may have to hike even more than what was priced in. That's exactly what they did. As a result, 5-year bond yields have jumped to new 12-year highs at the time of writing:



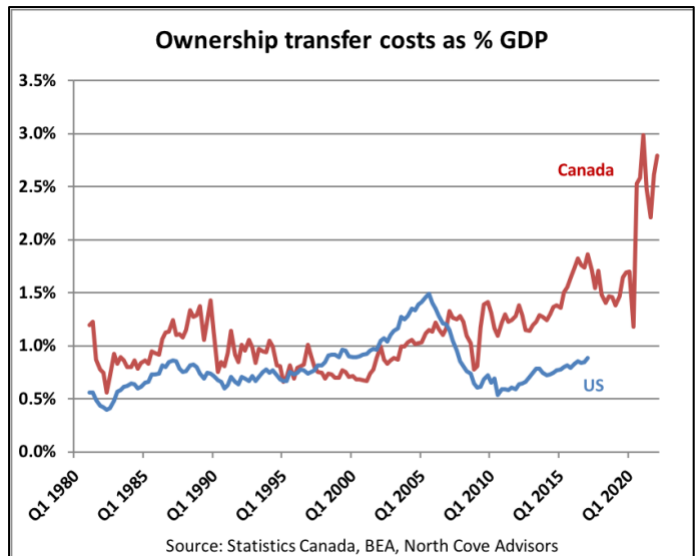
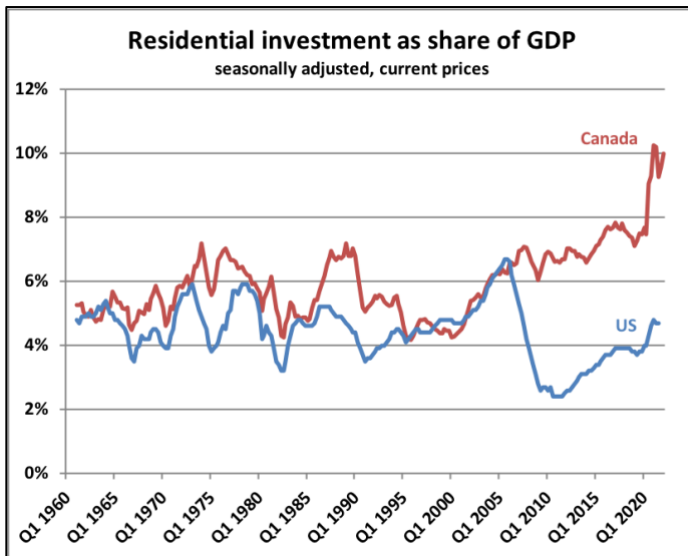
What this means is that we should expect another round of fixed mortgage rate increases next week. Current deep discounted rates are shown below:



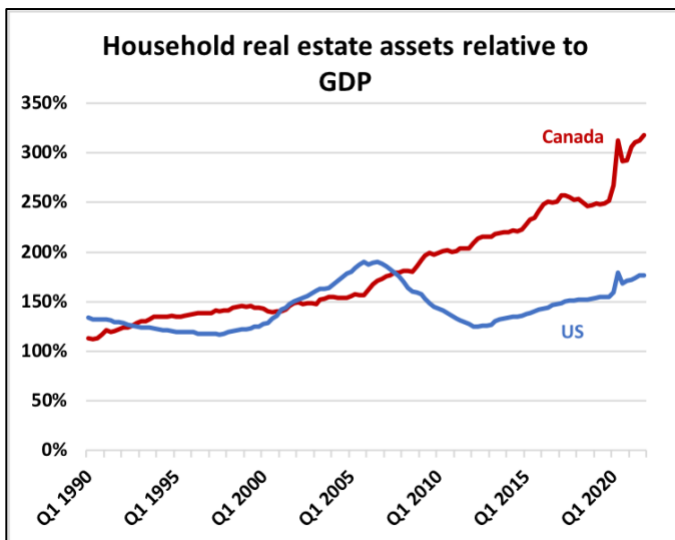
Holding house prices flat at April levels and using prevailing rates, the monthly mortgage payment required to purchase the typical home in Canada has surged by \$1,100 in the past 9 months. Clearly something has to give here....and if it won't be the BoC, it may have to be prices:



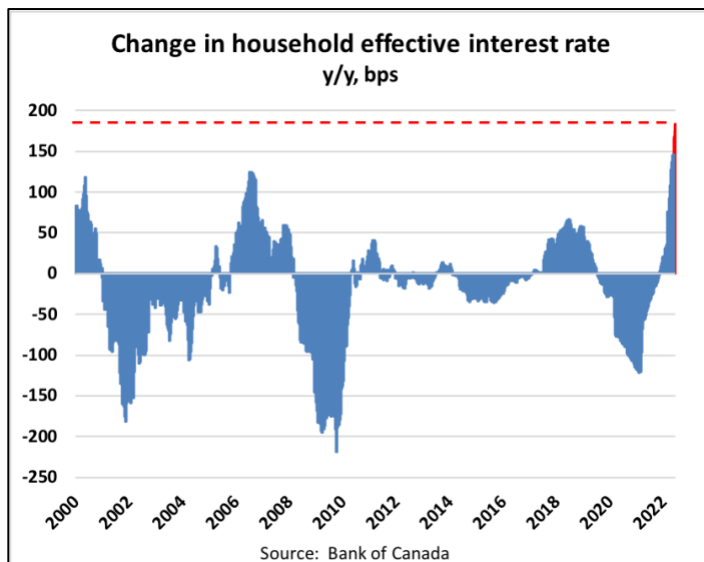
The BoC is going to have to tread carefully here. We learned this week that residential investment jumped again in Q1 to hit 10% of GDP....an absurd level in the context of every prior housing cycle. Ownership transfer costs, which are a pure feedthrough from liquidity in the resale market, hit nearly 3% of GDP...double where the US peaked in '05:



Equally at risk is the wealth effect on consumption. People spend more when they feel wealthier, and nothing makes Canadians feel wealthier than rising house prices. Residential real estate assets have never accounted for such a large share of household balance sheets, and they've also never been higher when compared to GDP (318% in Canada vs 176% in the US):



So that's a concern now that prices are starting to show signs of softening. That could weight on consumer spending, but the bigger risk is simply the feedthrough from higher rates. If last week's 50bp rate hike hits consumers at roughly the same speed as the April hike, we should expect the effective interest rate (which is the average rate paid by consumers across all outstanding debt) to be up nearly 190bps y/y by the end of the month...by far the largest such increase in at least 20 years:

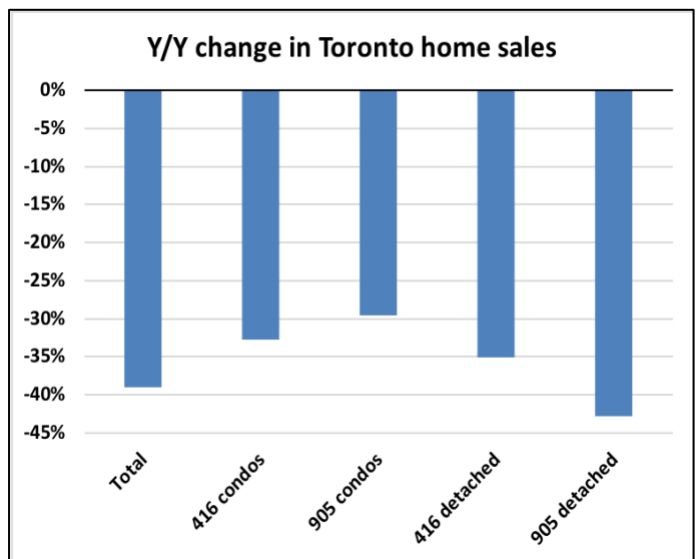
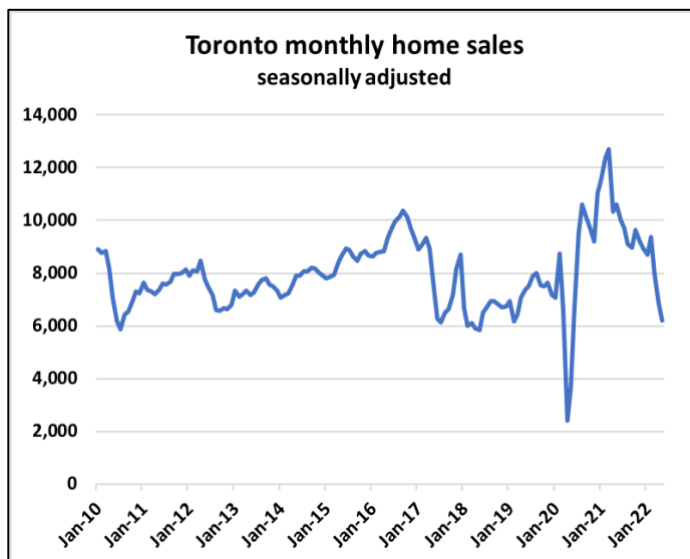


This will get worse before it gets better. Another 50bp hike in mid-July looks like a lock, and there's mounting speculation that they may even go 75bps if the inflation reading later this month comes in hotter than expected.

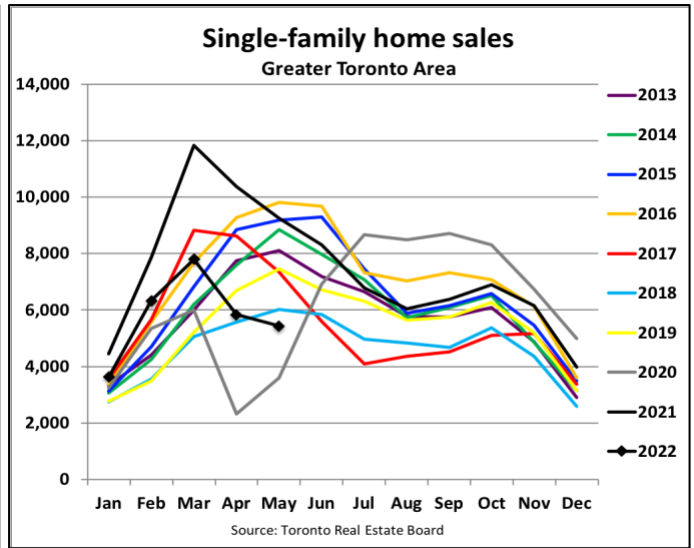
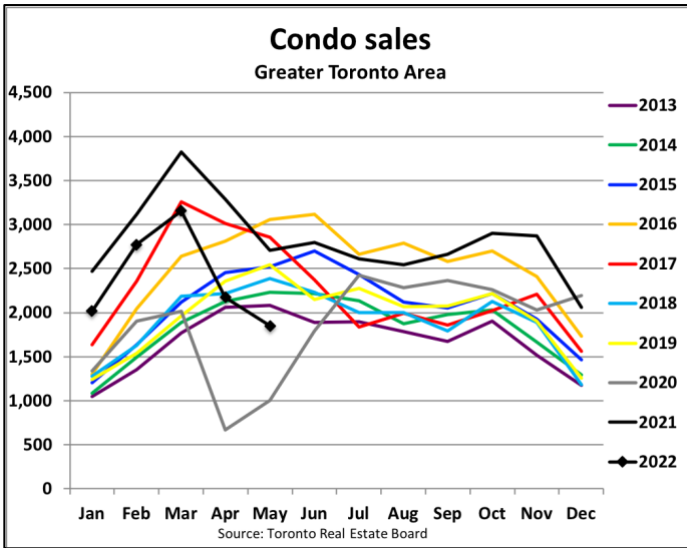
2) More price pressure in Toronto as sales tumble again, condo market weakens

Rising interest rates continue to slam the brakes on housing markets in Ontario and BC....and that's even with some residual rate holds still active in the market. As mortgage industry veteran Rob McLister noted in a client email last week, "All those 5-year fixed rate holds in the 2s that borrowers got in February will expire next month. Any related last-gasp home-buying should be done by summer."

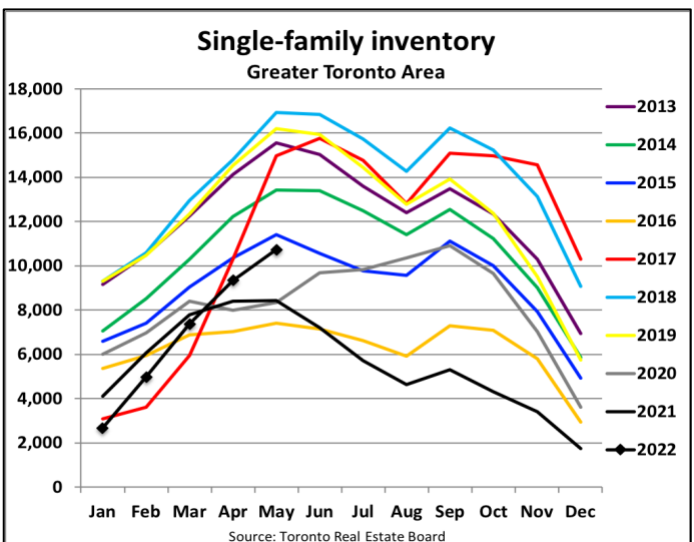
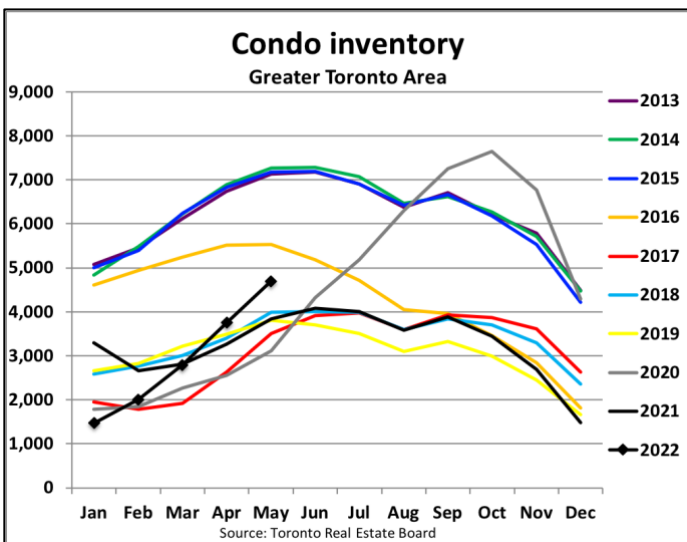
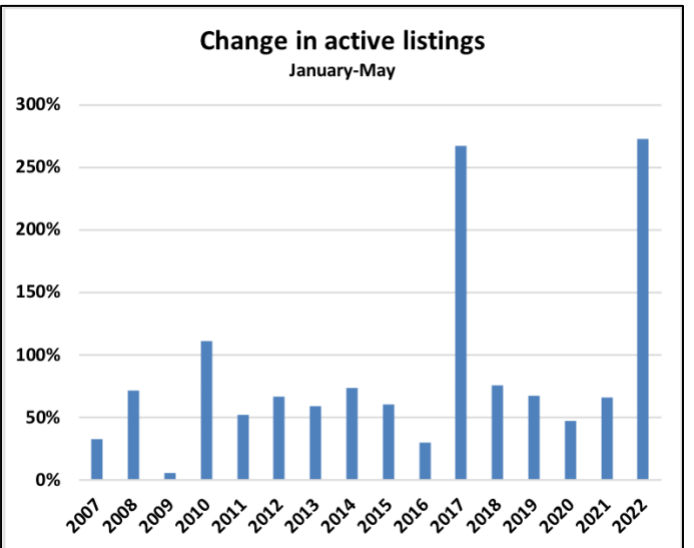
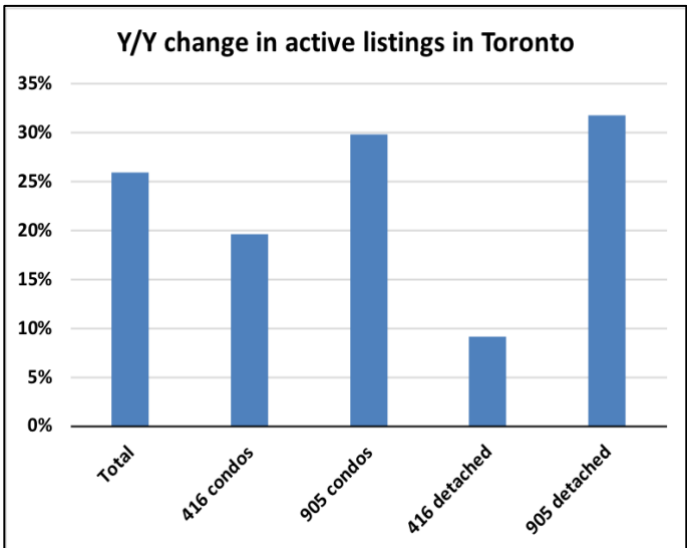
But even with those buyers still in the market, home sales in Toronto plunged another 9.3% m/m seasonally adjusted in May and are now down a whopping 34% in the past 3 months. On a y/y basis, sales were down 39% led by a 43% drop in detached sales in the suburbs:



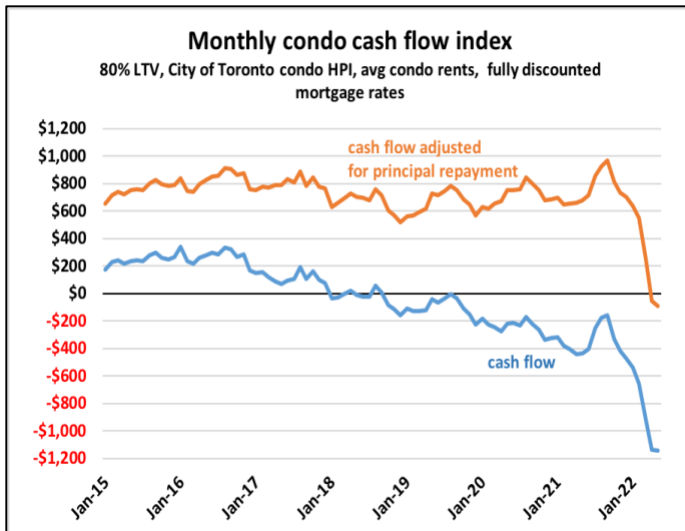
Outside of 2020, this was the lowest number of sales for the month of May in over 20 years:



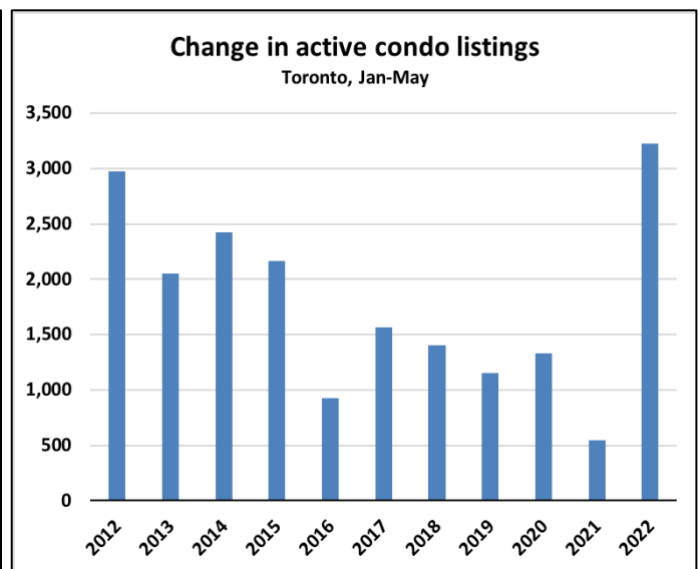
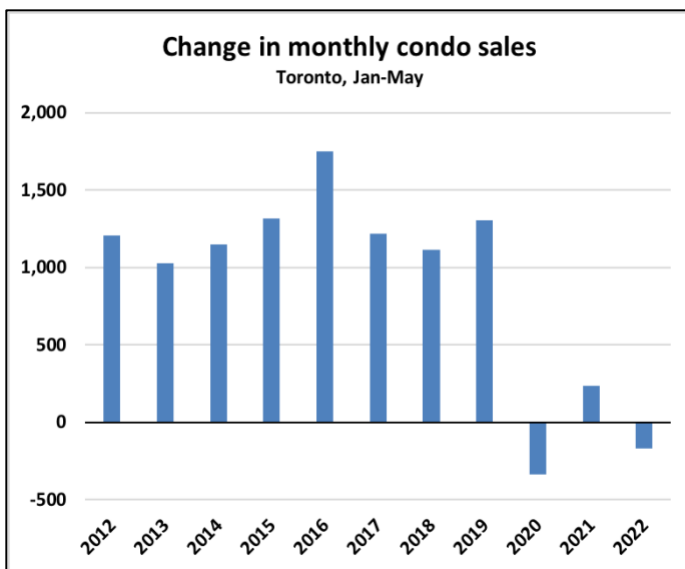
Inventory continues to build rapidly even though new listings are still at normal levels. Active listings were up 26% y/y and have now surged by 270% since the start of the year...the largest percent increase to start the year since the 1990s.



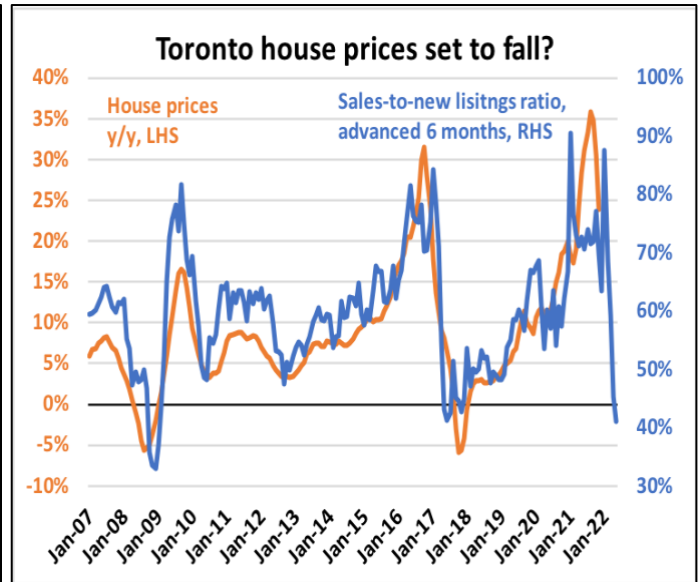
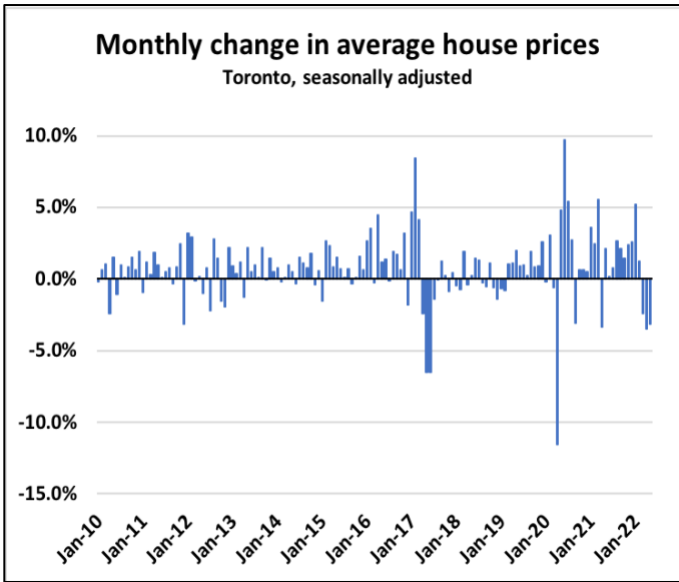
I want to focus in once again on the condo market and the sharp deterioration in rental economics for new purchases. Based on the trend in mortgage rates, cash flows for new investors continue to get obliterated and are now negative at 80% LTV even once principal repayment is added back. This is a very different value proposition than just a few short months ago:





This goes a long way to explaining why condo sales are seeing such a steep seasonal drop and such an unusually large seasonal build in inventory. With no economic return outside of future price appreciation or rental growth and with a high share of purchases going to investors, this segment could still see a significant drop in demand from here:



Prices continue to slide with the seasonally adjusted average down another 3.1% on the month making the cumulative 3-month decline nearly 9%. This is the first time we've had 3 consecutive monthly declines since 2017. The annual gain is still over 23%, but based on the sales-to-new listings ratio, we may see that figure print negative this fall if market balance doesn't change quickly:



There's no shortage of homes with failed closings that are now selling at eye-watering declines from the prior contract price from just several months ago:

3944 Beacham St
Mississauga - Lisgar
Detached

Listed for: \$1,550,000
Sold for: \$1,525,000
Sold 7 days ago

5 Bedrooms




4 Bathrooms

2 Garage

Listing History

Buy/sell history for 3944 Beacham St, Mississauga (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-05-16	2022-05-26	\$1,525,000	Sold	W5621731
2022-01-26	2022-02-04	\$1,836,000	Sold	W5482045 Q

47 Dunstall Cres
Scarborough - West Hill
Detached

Listed for: \$988,800
Sold for: \$980,000
Sold 24 days ago

2 Bedrooms

1 Bathrooms

0 Garage

Listing History

Buy/sell history for 47 Dunstall Cres, Scarborough (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-04-27	2022-05-09	\$980,000	Sold	E5593009
2022-02-08	2022-02-10	\$1,256,100	Sold	E5493681 Q

And there are even now a few examples of homes selling for below the prior 2017 peak:

57 Anndale Dr
North York - Willowdale East
Detached

Listed for: \$2,199,000 \$2,198,000
Sold for: **\$1,900,000**
Sold 8 days ago

3+1 Bedrooms 3 Bathrooms 0 Garage

Listing History
Buy/sell history for 57 Anndale Dr, North York (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-03-10	2022-05-26	\$1,900,000	Sold	C5536028
2022-01-24	2022-03-14	\$2,350,000	Terminated	C5479940
2022-01-12	2022-01-24	\$1,688,000	Terminated	C5472910
2017-03-23	2017-03-30	\$2,200,000	Sold	C3738256

This is continuing to create appraisal issues for some buyers, a dynamic that will continue to create disorderly selling likely until mid-summer. The headline below was unthinkable just 10 weeks ago:

CTV NEWS


BUSINESS | News

What to do when your home appraisal falls short as the housing market cools

Published May 20, 2022 10:48 a.m. ET

By **Tom Yun**
CTVNews.ca writer

It's not just a Toronto phenomenon anymore either. Big price declines from peak are now being seen across southern Ontario. As just one example, consider this home in Orangeville. This home sold conditionally in March for \$995,000 but failed to close and was resold in late May for just \$799,000.



42 Westdale Ave
Orangeville - Orangeville
Detached

Listed for: \$799,000
Sold for: \$799,900
Sold 7 days ago

3+1 Bedrooms 2 Bathrooms 1 Garage

Listing History
Buy/sell history for 42 Westdale Ave, Orangeville (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-05-16	2022-05-26	\$799,900	Sold	W5620201
2022-05-07	2022-05-16	\$995,000	Terminated	W5608177
2022-03-03	2022-03-10	\$995,000	Sold	W5521524

Once again the main thing to remember is that we won't really have a good grasp on market trends until these distressed sales work through the system. The important dynamic to watch will be new and active listings come August. If those are still rising sharply, we may be dealing with a steeper adjustment.

For their part, CMHC isn't taking chances. They've quietly changed the rules around their much-maligned shared equity program in an attempt to limit potential losses¹. This program sees the crown corporation provide down payment assistance in exchange for an equity stake and all the associated future gains or losses:

This section is Presented by RBC Mortgages

Real Estate / Mortgages

CMHC rewrites rules of homebuyer shared-equity program to limit potential losses and gains

Changes come as first-time buyers have largely shunned program

Stephanie Hughes
Jun 02, 2022 • 1 hour ago • 4 minute read • [Join the conversation](#)

¹ <https://financialpost.com/real-estate/mortgages/cmhc-rewrites-rules-of-homebuyer-shared-equity-program-to-limit-potential-losses-and-gains>

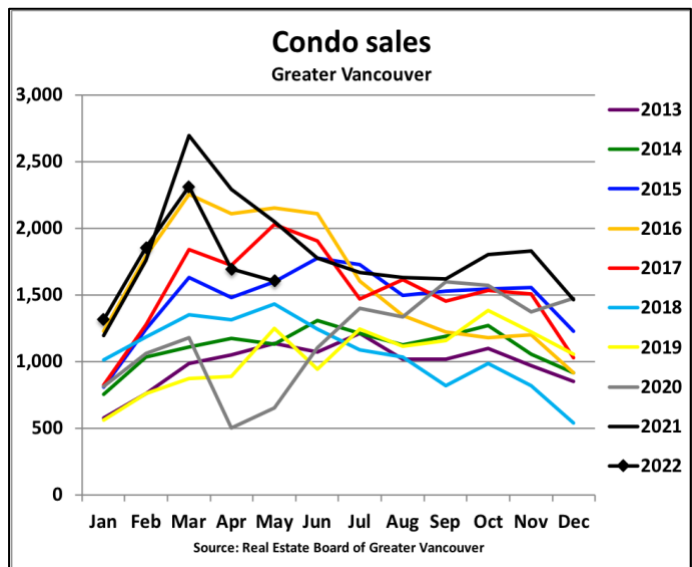
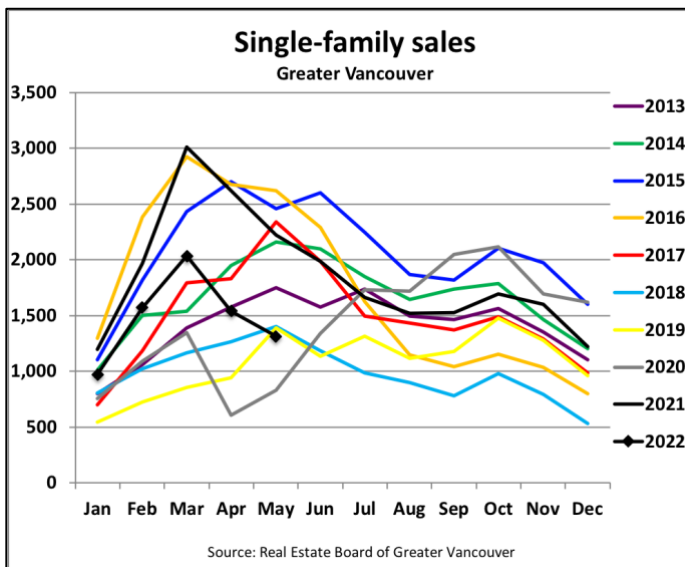
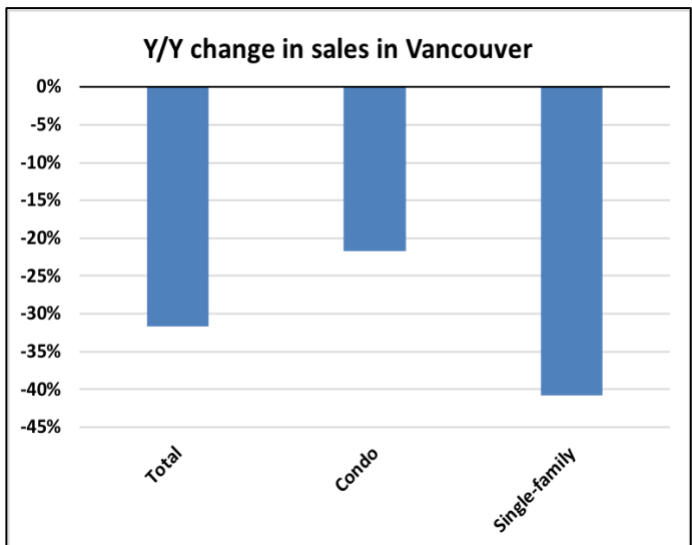
This quote is from McLister is bang-on:

“The government’s number crunchers and political analysts likely realized that price risk is real. They’re not stupid.” McLister wrote in an e-mail, adding that the federal government understands how overstretched valuations have become. “It’s probable that a significant correction would leave the government on the hook for materially more losses than they bargained for. Losing taxpayer money doesn’t make for positive sound bites.”

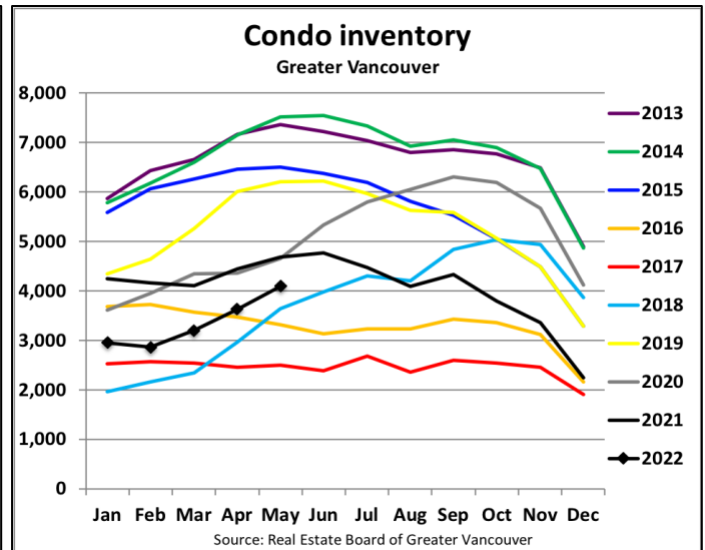
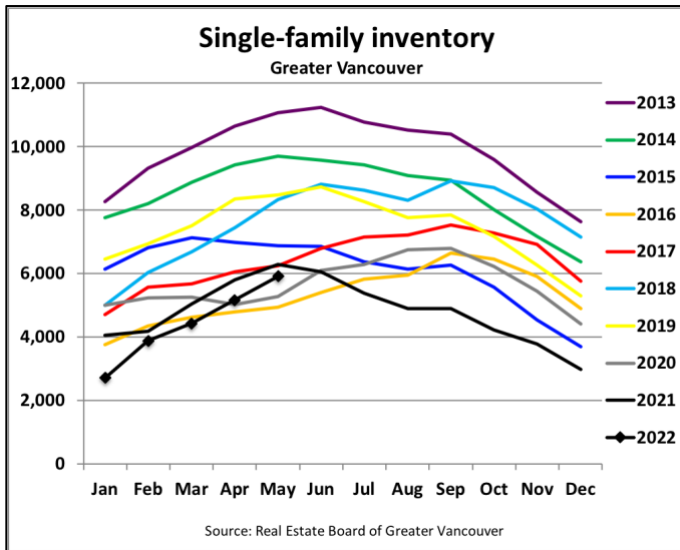
CMHC’s crystal ball is no better than anyone else’s (who can forget their disastrous predictions in the early days of COVID), but it does provide a glimpse into the thought process of important Canadian policy makers. They are nervous, and that should make us at least a bit uneasy.

3) Vancouver home sales slide, prices begin to soften

Over in Vancouver, home sales posted a seasonally adjusted 15% monthly decline in May and were down 32% compared to the same month last year. The sales decline was particularly notable in the single-family segment where transactions fell over 40% y/y.



Inventory is building quickly but remains very low overall and was still down 10% compared to last year. In large part this is due to a low flow of new listings coming to market. New listings were down 10.5% y/y in May.



Still, cooling demand has been enough to put a chill in prices which slipped 0.3% m/m in May, the first decline since 2020. But real estate contacts suggest that price declines are considerably more significant than is being captured in the headline data. As just a couple examples, consider the townhouses below and the corresponding sales in each complex over time. These are very similar units. The trend in prices is very clear:

27735 ROUNDHOUSE DRIVE
Roundhouse 🏠
Abbotsford BC
(Aberdeen) V4X 0B9

Unit 107

Unit	Date	Sold price	Difference with respect to the peak
68	19-Jan	\$895,000	-6%
45	19-Jan	\$895,000	-6%
69	09-Feb	\$920,000	-3%
44	11-Feb	\$950,000	0%
56	16-Mar	\$910,000	-4%
84	08-Apr	\$860,000	-9%
111	04-May	\$790,000	-17%
55	12-May	\$780,000	-18%
107	20-May	\$765,000	-19%

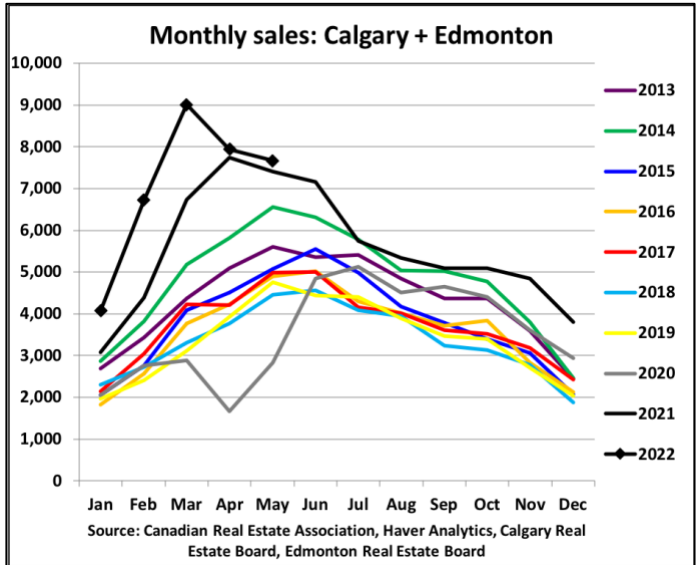
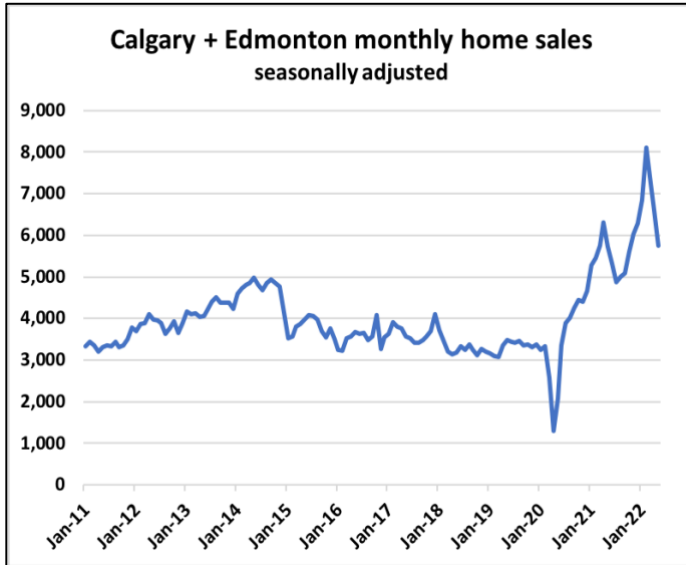
GLENCOE ESTATE 🏠
Surrey BC
(East Newton) V3W 6G6

Unit 210

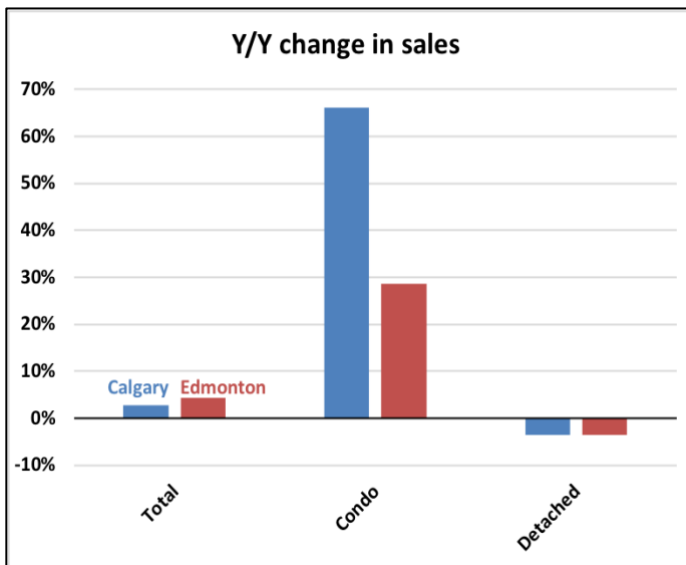
Unit	Date	Sold price	Difference with respect to the peak	\$/sqft	Difference with respect to the peak
270	27-Nov	\$ 741,000	-19%	\$ 483	-15%
269	22-Dec	\$ 760,000	-16%	\$ 492	-13%
263	21-Jan	\$ 930,000	2%	\$ 600	6%
210	16-Feb	\$ 905,000	-1%	\$ 585	3%
137	11-Mar	\$ 910,000	0%	\$ 566	0%
135	24-Mar	\$ 800,000	-12%	\$ 519	-8%
187	13-May	\$ 790,000	-13%	\$ 512	-10%

4) Alberta sales slow, prices stall. Are condo speculators moving this market?

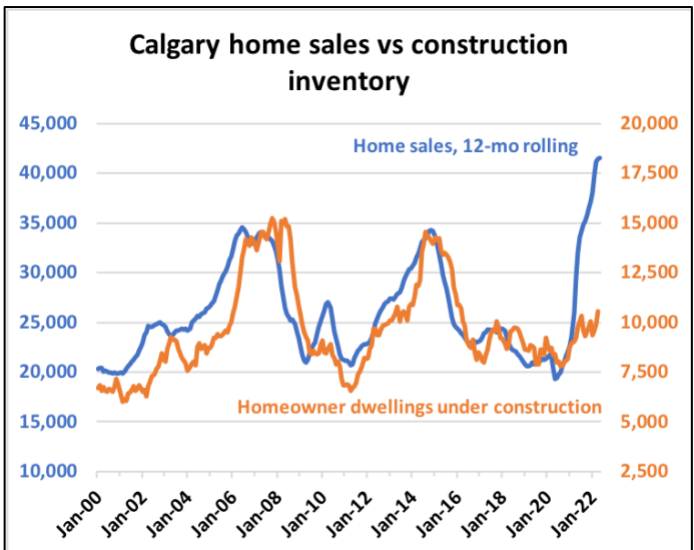
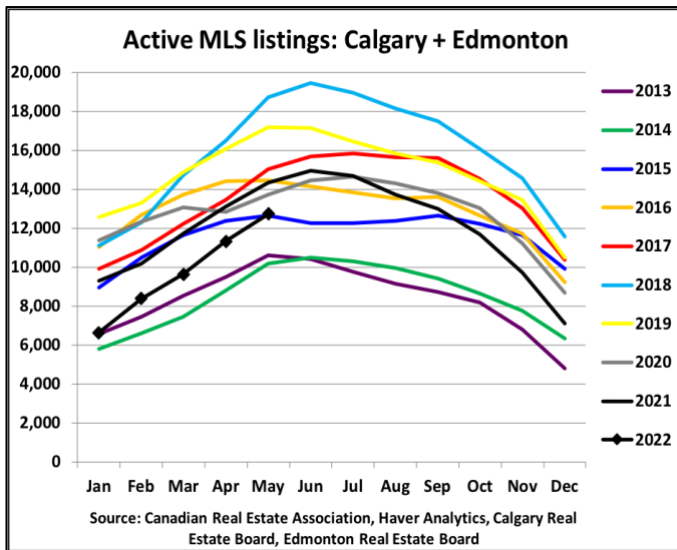
Finally some signs that higher rates may be weighing on demand even Calgary and Edmonton. Seasonally adjusted home sales fell an estimated 15% m/m...the steepest decline since the early days of COVID. Now they are still at record levels, mind you, and were up 3% compared to 2021, so this market is still faring far better than others in Ontario and BC:



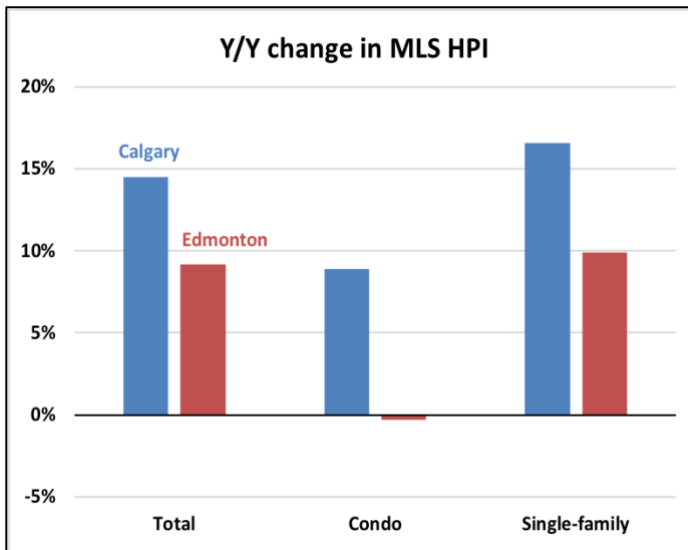
But digging beneath the surface we find that the entirety of the gains relative to 2021 come from surging demand in the condo segment. One has to wonder if the last gasps of speculative fever is at work here as investors chase momentum in the last "hot" housing market in the country. It weirds me out a little, but not too much yet:



The reason I'm not yet overly concerned is that active listings remain relatively low while new listings were up only 2%. And more importantly, there's still hardly any new inventory in the construction pipeline. Yes, rentals are at all-time highs, but single-family and condo construction has just not tracked trends in the resale market:



House prices were flat in Edmonton and slipped slightly in Calgary according to the MLS HP but prices are still up sharply compared to last year.



I'll leave it here for now. The next Edge Report out later this month will take a much deeper dive into macroeconomic, population, and housing trends.

Regards,
Ben