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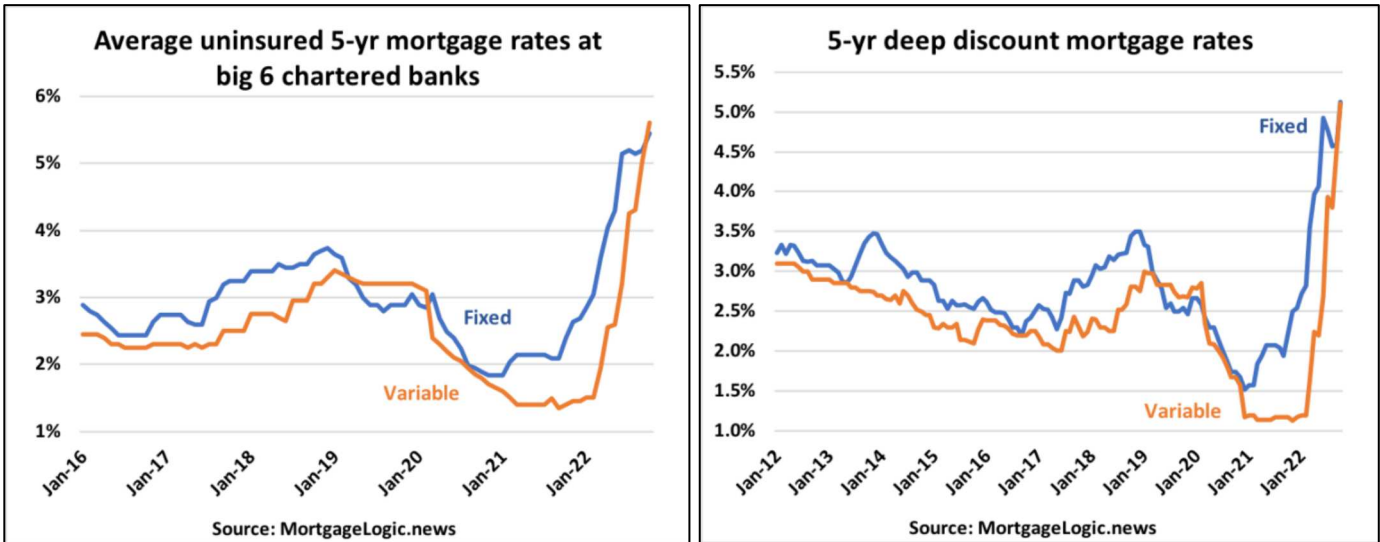
**November 2022**  
**Metro level deep-dive- October data**

**Quick links:**

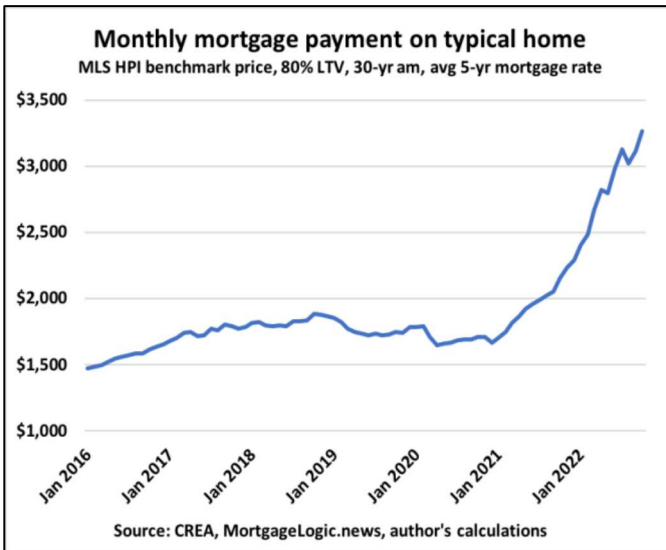
- 1) Affordability challenges intensify**
- 2) Toronto home sales flat in October, sellers remain on sidelines**
- 3) Vancouver home sales tick up in October**
- 4) Alberta still looking solid**

## 1) Affordability challenges intensify

Mortgage rates rose again last week. We now have variable rates priced above 5-yr fixed rates for the first time since 2019. Average rates on uninsured mortgages at the big banks are now around 5.5% while deep discounted rates across all lenders through the mortgage broker channel are at ~5.1% according to Rob McLister at Mortgage Logic:

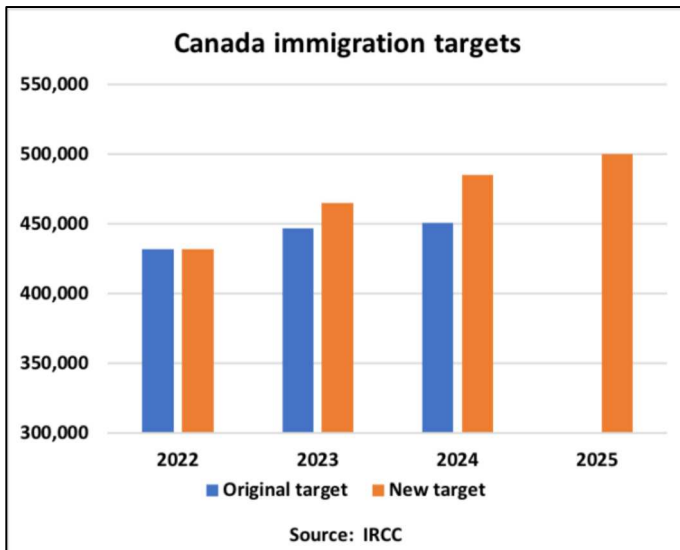


At those levels, the estimated monthly payment required to carry the mortgage on a typical home purchased at prevailing prices and mortgage rates has surged to \$3,270....a 52% increase from one year ago:

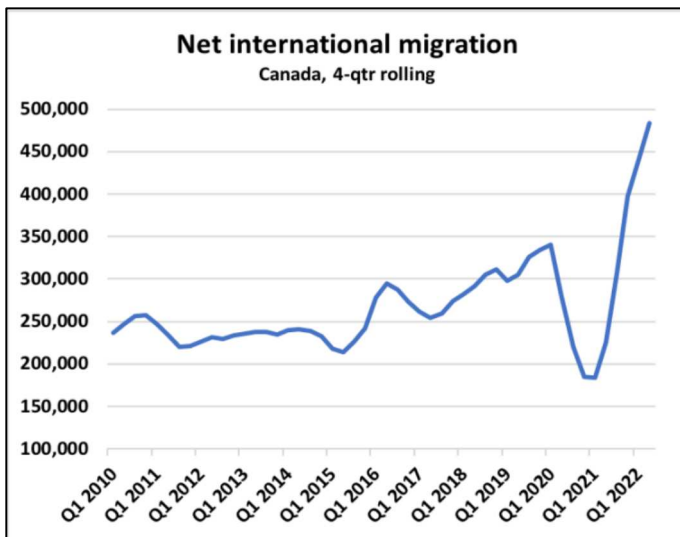


As I've said before, population dynamics will help underpin prices over the longer term, but none of that matters until we see some resolution to this affordability crisis.

On the population front, the feds have significantly raised immigration targets for 2023-2025 as shown in the chart below. The high end of the target range for 2025 is now just under 500,000.

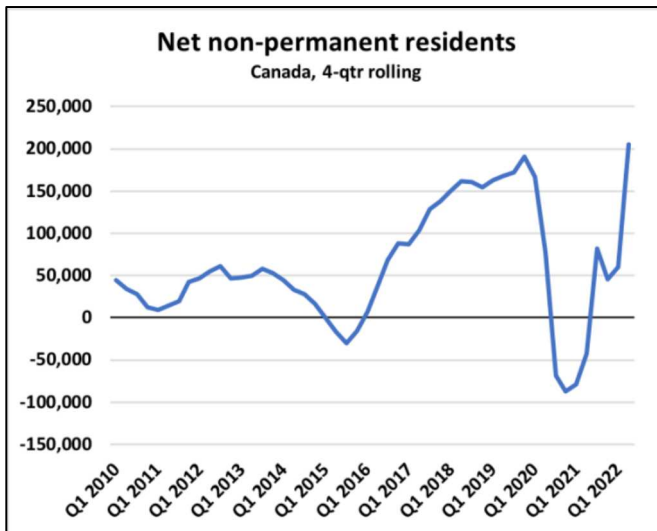


Keep in mind, we're already basically there. Net immigration is already at 485,000 over the past 4 quarters compared to a 2022 full-year target of 430,000...which makes this announcement feel suspiciously like the government had an "oh shit" moment when reviewing admission numbers and had to find a way to justify them.



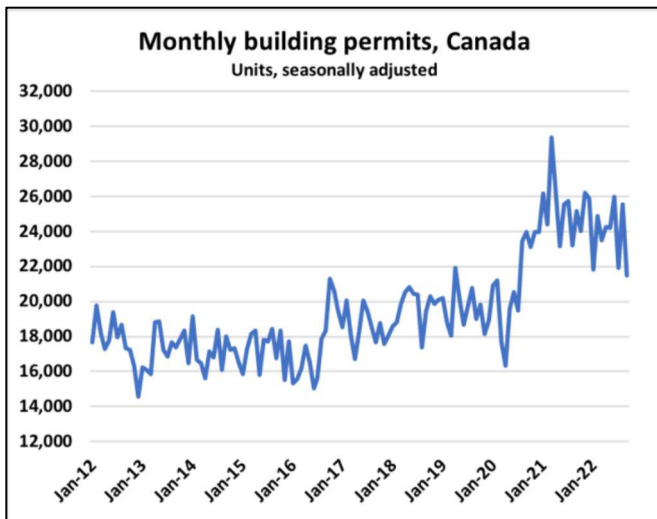
Also bear in mind, these targets don't capture the highly volatile non-permanent resident cohort (international students, foreign workers, etc) which have added another 200,000 to the population over the past year and have been a major source of incremental rental demand.

It's always struck me as odd that this incredibly important source of population growth is not considered when setting federal immigration targets. These folks need accommodation too:



At the same time as the feds are ramping population growth, developers are being forced to pull back on construction in what is likely setting the stage for another supply crunch in coming years. Residential building permits fell 16% m/m in unit terms in September, the 2<sup>nd</sup> largest monthly decline since data became available in 2011. Ontario saw permits plunge 24% m/m.

This comes on the heels of a monster 16.5% build in August on the back of record apartment permits, so some of this is simply giving back a portion of those earlier gains. Still, it was the lowest number of permits granted since early 2020 and likely an early sign of an impending construction slowdown:

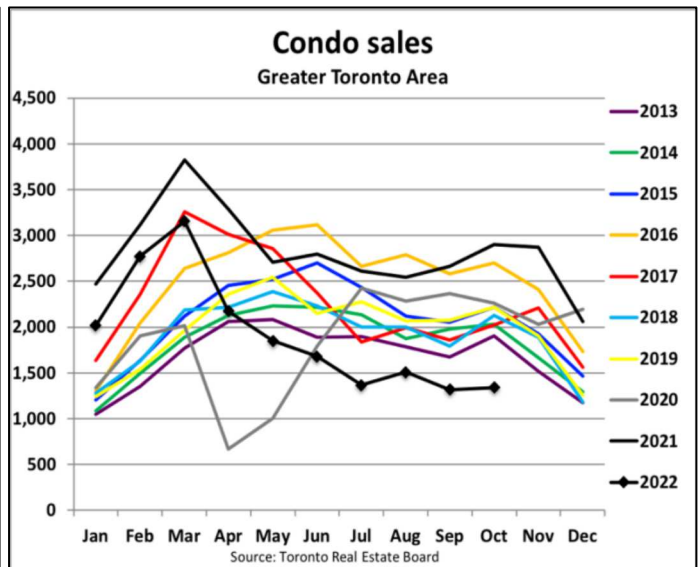
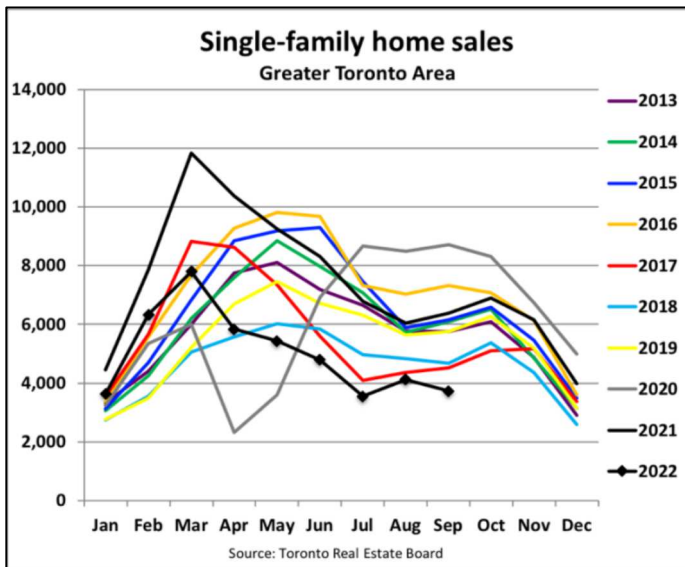
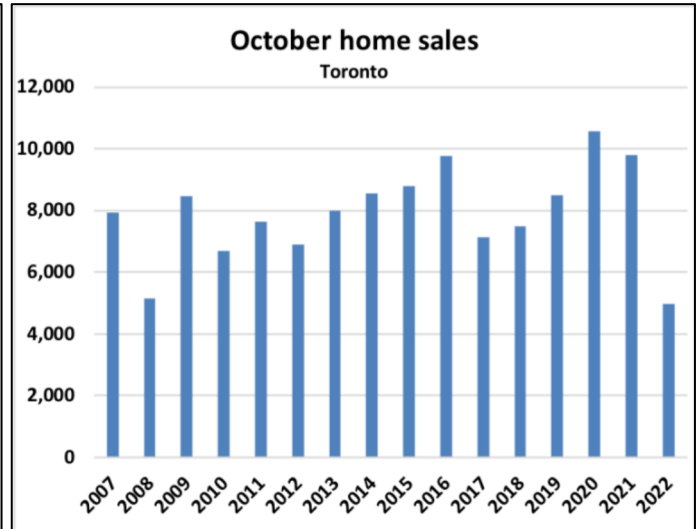


The takeaway is this: Affordability constraints due to high rates will be all that matters for the time being, but the seeds of another supply crisis at some point down the road (from both falling supply and rising demand) are being sown before us.

## 2) Toronto home sales flat in October, sellers remain on sidelines

### Sales down nearly 50% y/y

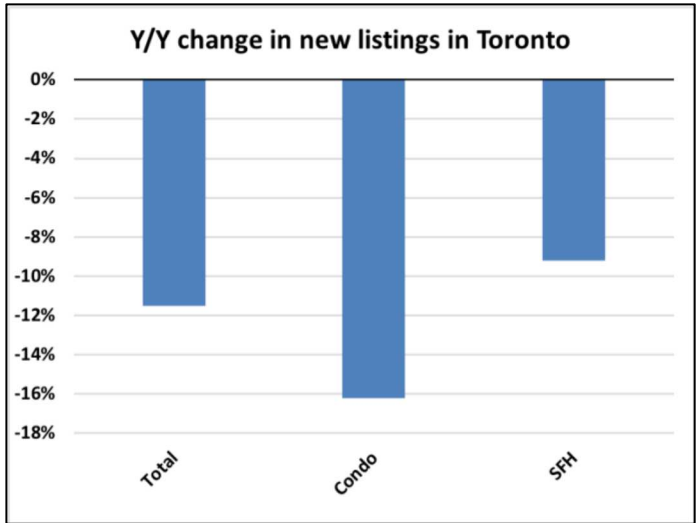
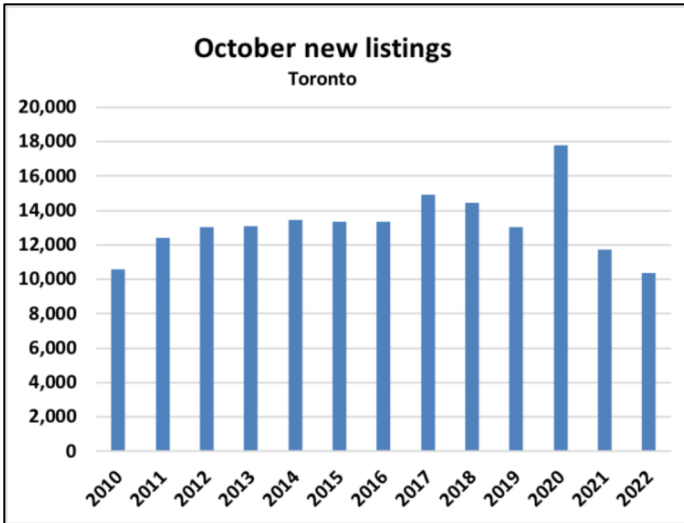
Seasonally adjusted home sales in Toronto were flat m/m in October but were down 49% compared to last year and down 55% in the hard-hit condo segment. Outside of 2 months at the onset of the COVID pandemic, this remains the lowest level of demand since the 1990s.



I'll say it again, I just don't see much downside to sales levels from here given current population dynamics. We may grind sideways for a bit until there's some clarity around how high interest rates will ultimately get, but there's just not a lot further that sales can fall from here.

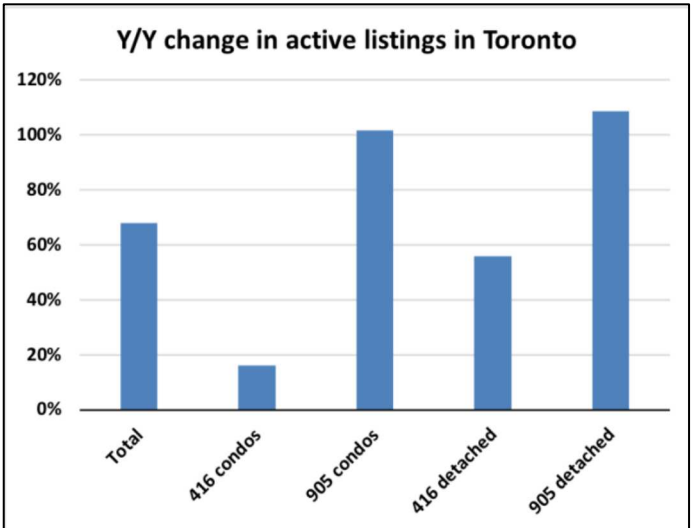
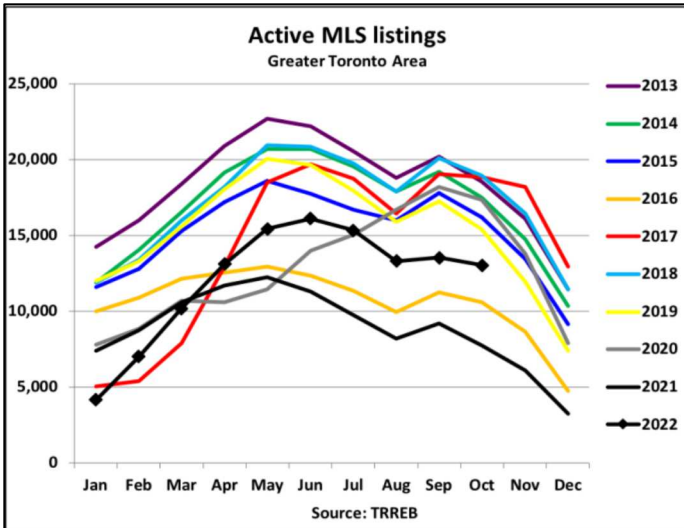
### Seller holdout continues

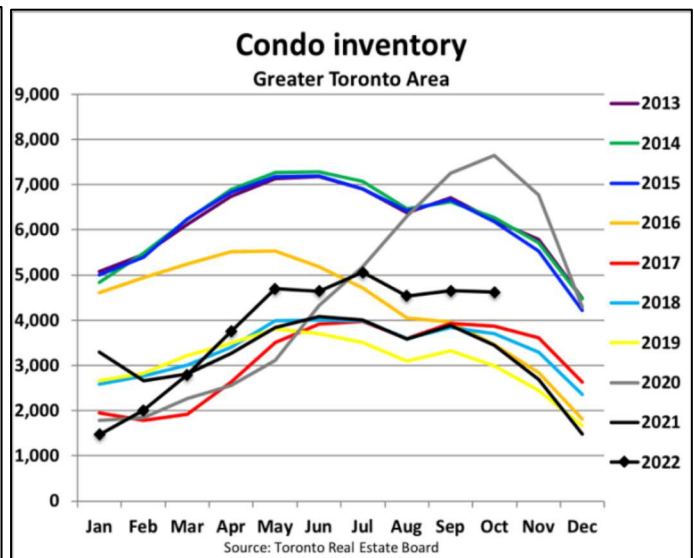
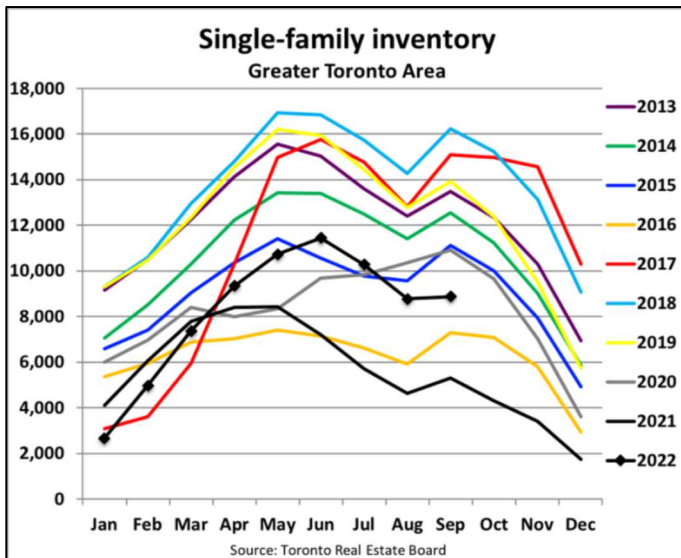
There are still no signs of panicked selling. New listings in Toronto they fell 11.6% y/y to hit fresh decade lows. I still expect that we'll see a significant supply response in the spring.



### Inventory trending up but still not alarmingly high

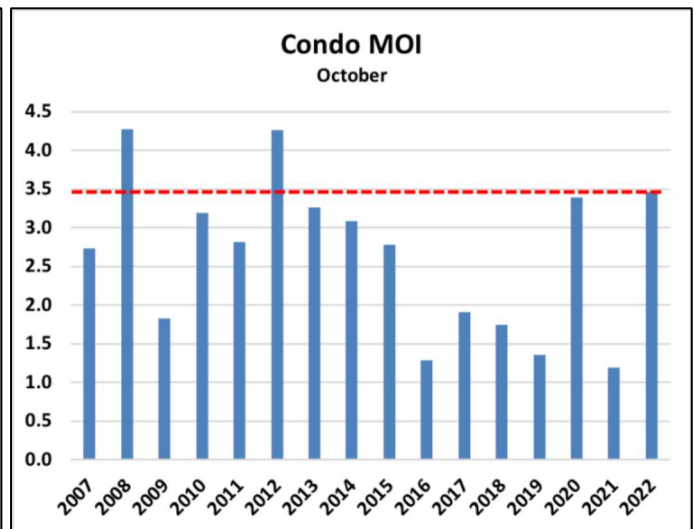
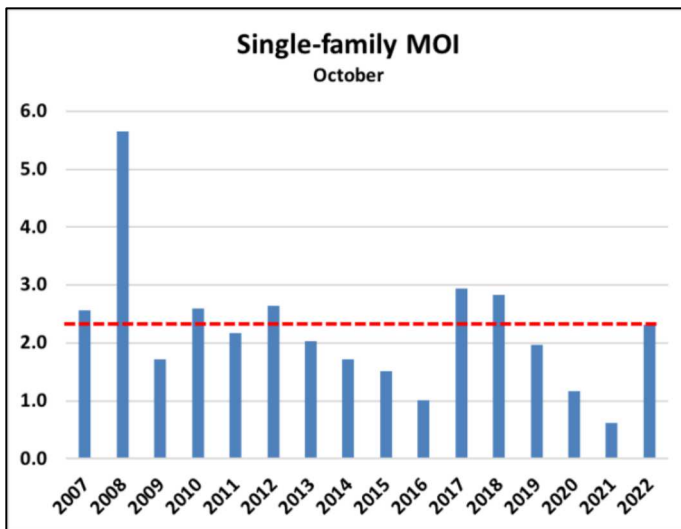
Inventory continues to rise compared to the 2021 lows, up 68% y/y in Toronto, but absolute levels remain relatively low. **Despite 2 full quarters of exceptionally weak demand, active listings are still not building at an alarming rate.**





**Market remains reasonably balanced**

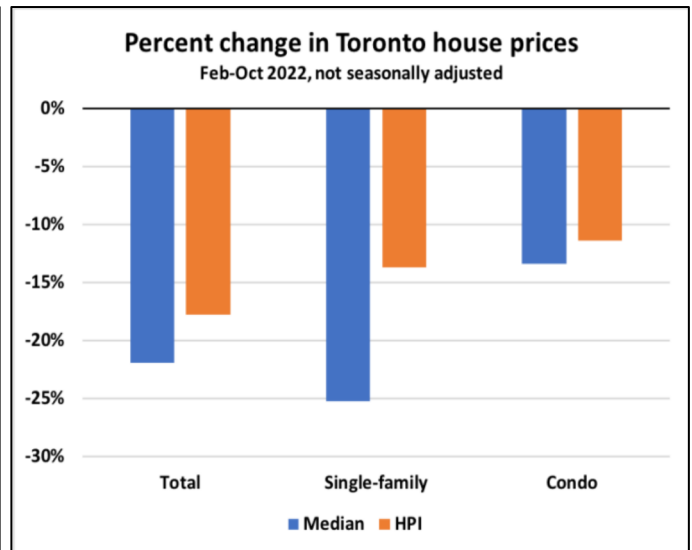
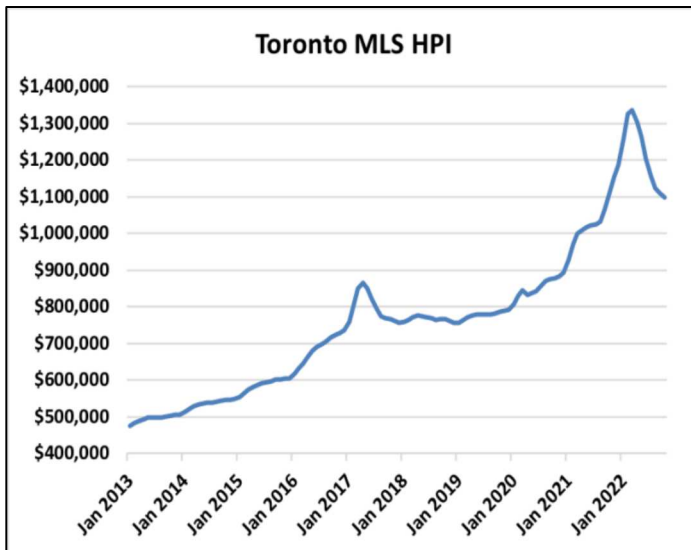
It's really quite something that we've seen the most rapid rise in interest rates in 30 years, the lowest level of sales in over 20 years, and months of inventory in the single-family segment across the GTA are only 2.3. That is insane! Things are a little softer in condo-land, but even there it's far from a disaster.



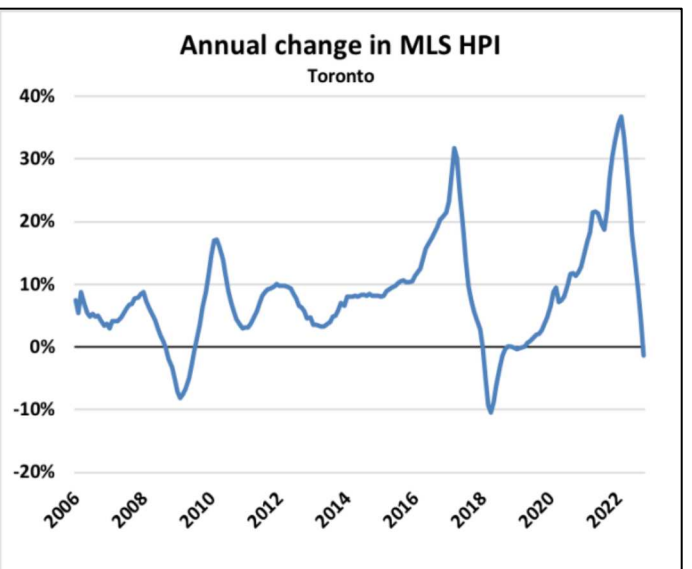
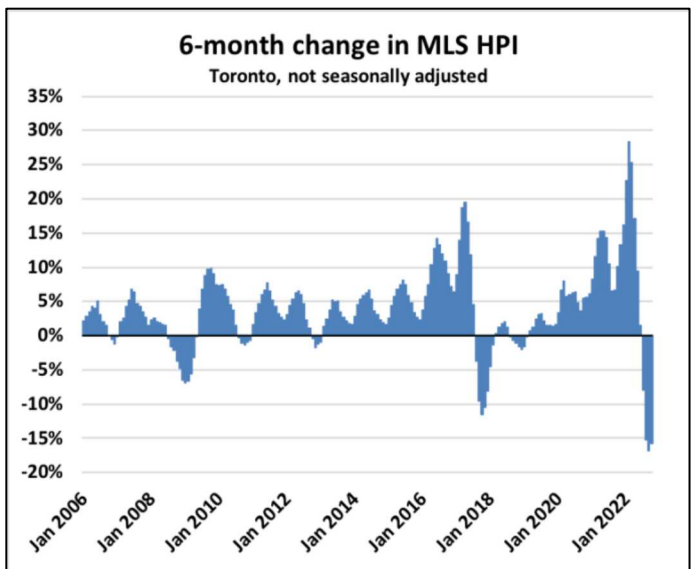
**Prices decline but pace moderates**

The MLS House Price Index registered a 1.1% monthly decline in Toronto (not seasonally adjusted), and we've now seen a roughly 18% decline from peak. And if we look at median prices, the decline from peak in the single-family detached segment is now 25%.





We've now seen the steepest 6-month decline in index history going back to 2005. House prices are now negative on a y/y basis in Toronto for the first time since 2018:

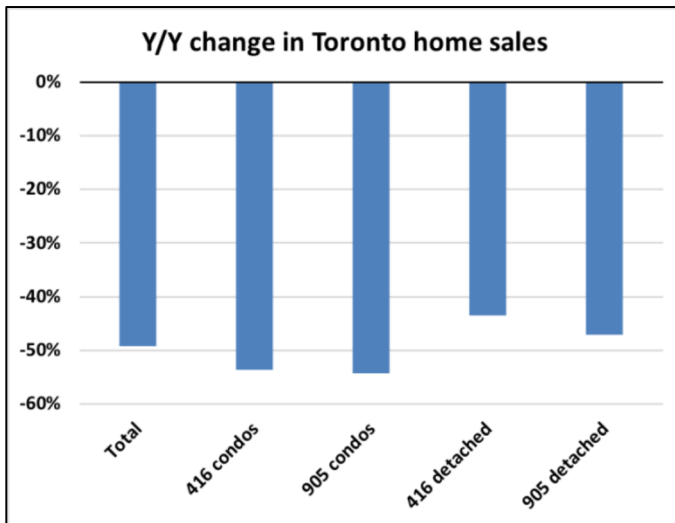


**Monitoring the assignment market**

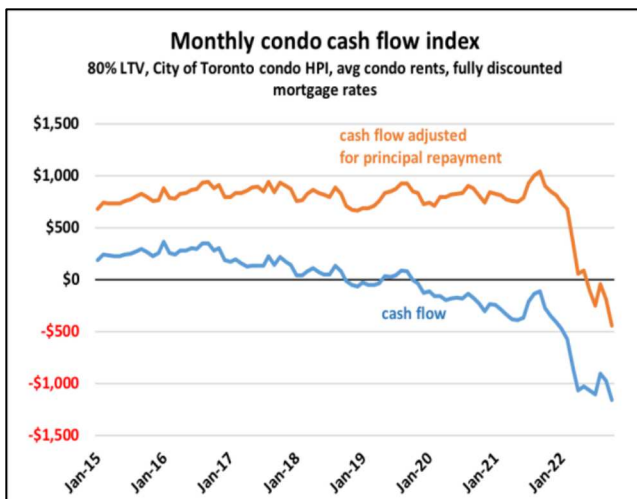
If there's one risk that still is not being widely recognized it's the risk to closing on preconstruction purchases which could force some distressed selling.

It's telling that the condo segment is now seeing the steepest decline in sales:





That shouldn't be a surprise given that investors have been a major source of demand in this segment, and they are now pulling back amid a continued deterioration of cash flows on new purchases. Based on the latest numbers, a resale condo financed at 80% LTV at prevailing mortgage rates and market rental rates will see negative headline cash flow of \$1,200 per month...which is still negative by nearly \$500 per month once principal repayment is added back:



We know the new home sales (ie preconstruction) remain exceptionally weak, with sales down 88% y/y in September including a 96% decline in single-family sales. Some additional color on the magnitude of the slowdown from Urbanation<sup>1</sup>:

A record 189 projects in development reported zero sales during the (third) quarter, a 67% share of total projects with available inventory.

Things are not much better in Vancouver<sup>2</sup>:

In the third quarter of 2022, there were 1,522 pre-sale condo and townhome transactions, down 72 per cent from an all-time peak of 5,481 for the same period last year, according to numbers from Zonda Urban, which tracks the pre-sale market for developers.

<sup>1</sup> <https://www.urbanation.ca/news/359-gta-new-condo-sales-drop-79-annually-q3>

<sup>2</sup> <https://www.pressreader.com/canada/the-province/20221027/281547999827549>

The loss of investors remains problematic for the preconstruction market as it removes an important source of pre-closing liquidity via the assignment market. From the Globe and Mail<sup>3</sup>:

[...] Fast forward to 2022, interest rates have spiked and buyers of preconstruction units must be preapproved for financing and pass a mortgage stress test before they close the deal. Some can't afford the monthly carrying costs and want out.

"They are very motivated because they wouldn't be able to close," Mr. Pope says. "They're saying, 'I don't want to lose the farm.'"

Now developers, real estate agents and lenders are watching to see whether the industry will face a flood of assignment sales as preconstruction buyers face closing a deal without the cash to do so.

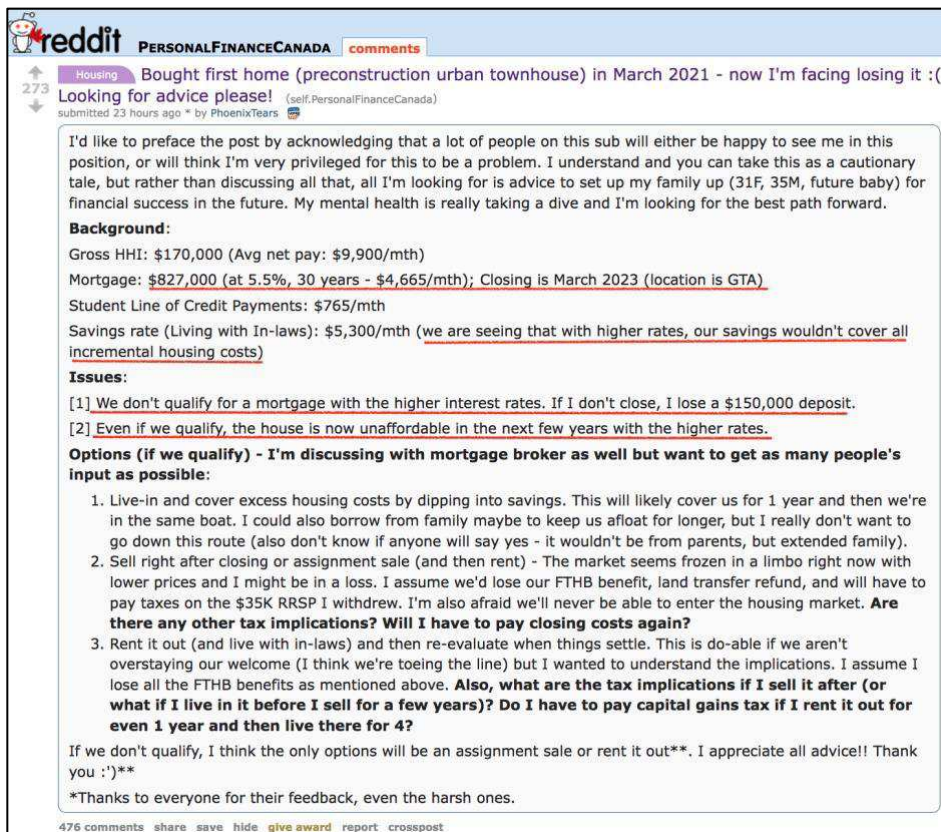
Simeon Papailias, managing partner of Royal LePage's REC Canada, estimates that the number of assignment listings in Ontario has doubled over the past six months.

Broker Pocket, one technology platform for assignment listings, had 100 per cent more inventory in September compared with March, says Mr. Papailias, who expects the trend to continue as interest rates continue to rise.

[...] Victor Tran, a mortgage specialist with rates.ca, expects many preconstruction buyers to face a challenge in securing financing.

"They're in for a bit of a surprise. They're simply not able to qualify."

Meanwhile on Reddit this week:



**reddit** PERSONALFINANCECANADA comments

Housing Bought first home (preconstruction urban townhouse) in March 2021 - now I'm facing losing it :( Looking for advice please! (self:PersonalFinanceCanada) submitted 23 hours ago \* by PhoenixTears

I'd like to preface the post by acknowledging that a lot of people on this sub will either be happy to see me in this position, or will think I'm very privileged for this to be a problem. I understand and you can take this as a cautionary tale, but rather than discussing all that, all I'm looking for is advice to set up my family up (31F, 35M, future baby) for financial success in the future. My mental health is really taking a dive and I'm looking for the best path forward.

**Background:**  
 Gross HHI: \$170,000 (Avg net pay: \$9,900/mth)  
 Mortgage: \$827,000 (at 5.5%, 30 years - \$4,665/mth); Closing is March 2023 (location is GTA)  
 Student Line of Credit Payments: \$765/mth  
 Savings rate (Living with In-laws): \$5,300/mth (we are seeing that with higher rates, our savings wouldn't cover all incremental housing costs)

**Issues:**  
 [1] We don't qualify for a mortgage with the higher interest rates. If I don't close, I lose a \$150,000 deposit.  
 [2] Even if we qualify, the house is now unaffordable in the next few years with the higher rates.

**Options (if we qualify) - I'm discussing with mortgage broker as well but want to get as many people's input as possible:**

1. Live-in and cover excess housing costs by dipping into savings. This will likely cover us for 1 year and then we're in the same boat. I could also borrow from family maybe to keep us afloat for longer, but I really don't want to go down this route (also don't know if anyone will say yes - it wouldn't be from parents, but extended family).
2. Sell right after closing or assignment sale (and then rent) - The market seems frozen in a limbo right now with lower prices and I might be in a loss. I assume we'd lose our FTHB benefit, land transfer refund, and will have to pay taxes on the \$35K RRSP I withdrew. I'm also afraid we'll never be able to enter the housing market. **Are there any other tax implications? Will I have to pay closing costs again?**
3. Rent it out (and live with in-laws) and then re-evaluate when things settle. This is do-able if we aren't overstaying our welcome (I think we're toeing the line) but I wanted to understand the implications. I assume I lose all the FTHB benefits as mentioned above. **Also, what are the tax implications if I sell it after (or what if I live in it before I sell for a few years)? Do I have to pay capital gains tax if I rent it out for even 1 year and then live there for 4?**

If we don't qualify, I think the only options will be an assignment sale or rent it out\*\*. I appreciate all advice!! Thank you :)\*\*

\*Thanks to everyone for their feedback, even the harsh ones.

476 comments share save hide give award report crosspost

<sup>3</sup> <https://www.theglobeandmail.com/real-estate/toronto/article-investors-in-torontos-assignment-market-face-a-murky-future/>

The only option is to lower the price of the assignment to the point where investors are enticed back into the market. That's likely quite a bit lower from here. In the meantime, a quick perusing of the latest assignment listings over the past 24 hours shows more condos selling below original purchase price outright...

1d - [redacted]

Assignment sell \*\* Must Go \*\*  
Selling ~ \$35k below original price~

3 bedrooms with den and 3 washrooms (1250sqft)

Original PP- \$960990  
Asking - \$925000

Deposit - 10% paid  
Cap charges - \$7500

...and even more selling at a loss once commissions are factored in:

21h - [redacted]

**EXCLUSIVE ASSIGNMENT SALE!**  
**UNIT NOW AVAILABLE TO SEE!**

The Prestige at Pinnacle One Yonge  
Freeland St & Harbour St, Toronto

**IMPROVED PRICE!!**  
2.5% to co-operating brokerage

The Prestige meets class, convenience, and culture. Just steps to Toronto's amazing waterfront and minutes to the financial and entertainment districts. This gorgeous modern, bright, open concept, north facing, 1 bed, 1 bath has it all! Chic kitchen equipped with brand name kitchen appliances. Luxury hotel-style lobby with 24hr concierge and 5 star amenities! A community built with luxury, fun and fitness for a chic urban lifestyle. One Yonge is a legendary address that can easily connect to highways, transit, bike trails, the lake and endless city attractions.

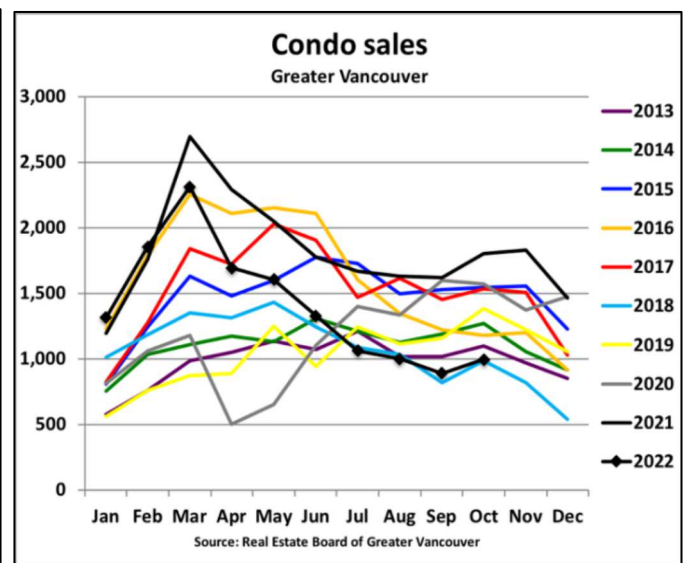
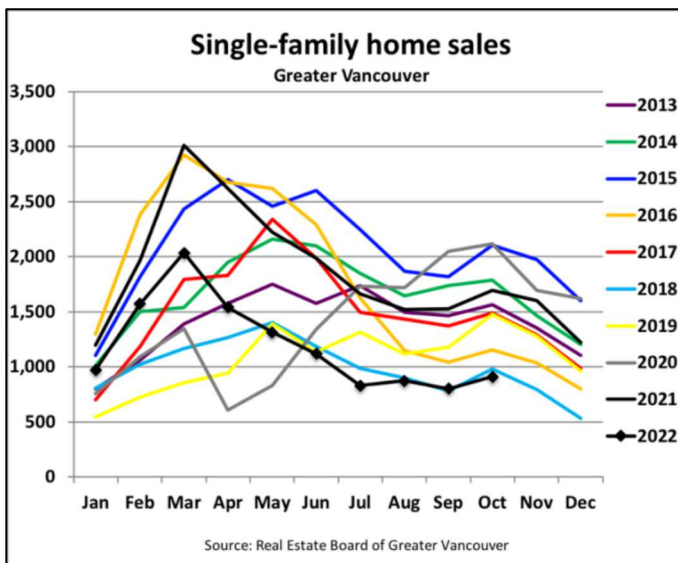
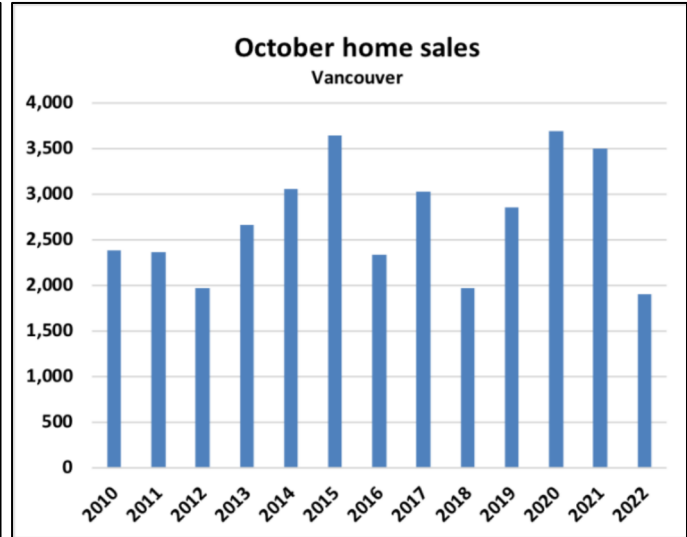
- ✓ 1 Bed | 1 Bath
- ✓ Asking Price \$799,900 (\$1,365 Sq Ft)
- ✓ Original Price \$794,900
- ✓ Deposit Paid 15% + 5% on
- ✓ 586 sq ft + 65 sq ft Balcony
- ✓ 39th Floor - (access to additional elevator floors 39 to penthouse only)
- ✓ North Exposure
- ✓ Oct 26, 2022 Occupancy

It's all anecdotal to be sure, and yes, "the plural of anecdote is not data". I get it. But the direction here concerns me, and I think things get very messy before they get better.

### 3) Vancouver home sales tick up in October

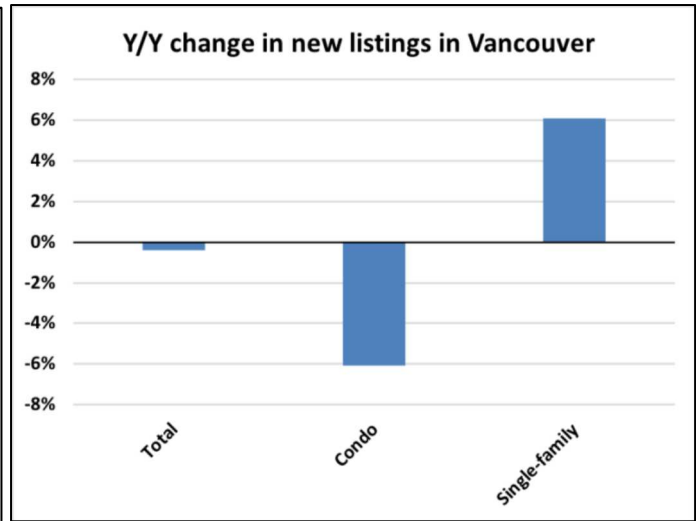
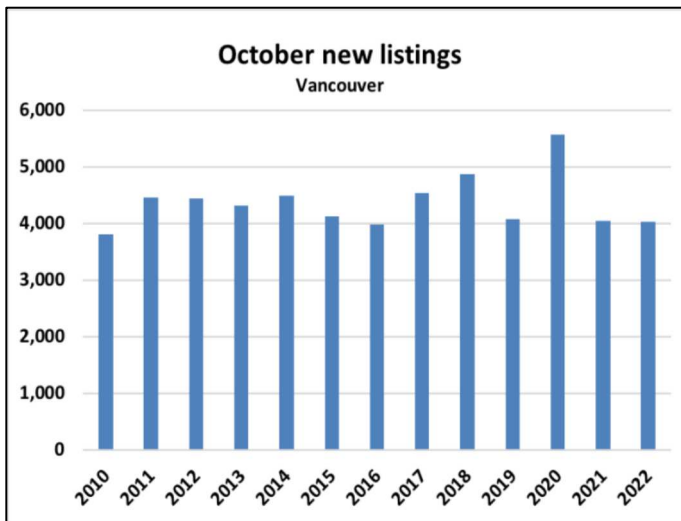
#### Sales perk up

Seasonally adjusted home sales jumped an estimated 9% m/m in Vancouver last month but were still down by nearly half compared to last year (-46% y/y).



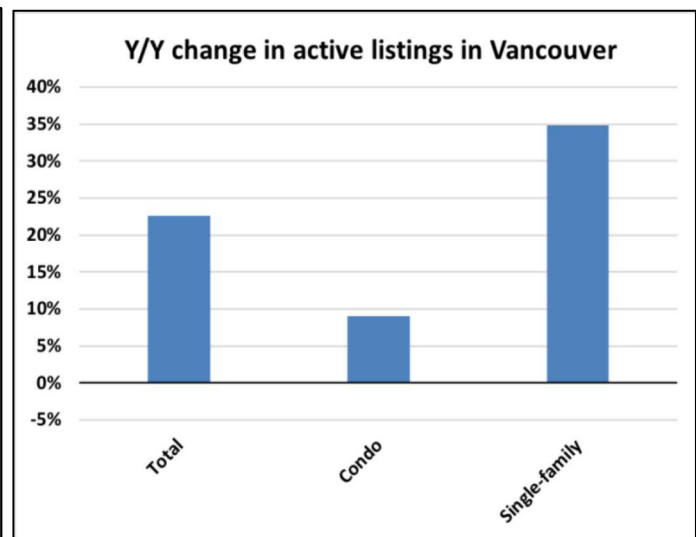
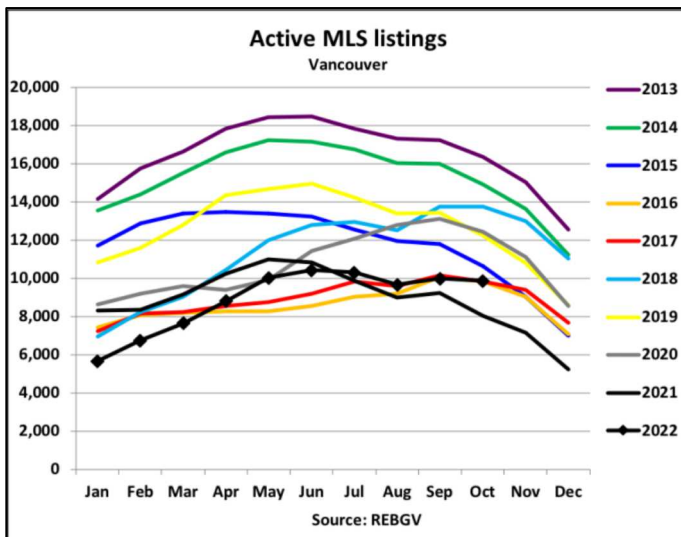
#### No “panic selling”

New listings were flat y/y in October and were slightly below normal levels over the past decade, although we did see a 6% increase in single-family listings last month:

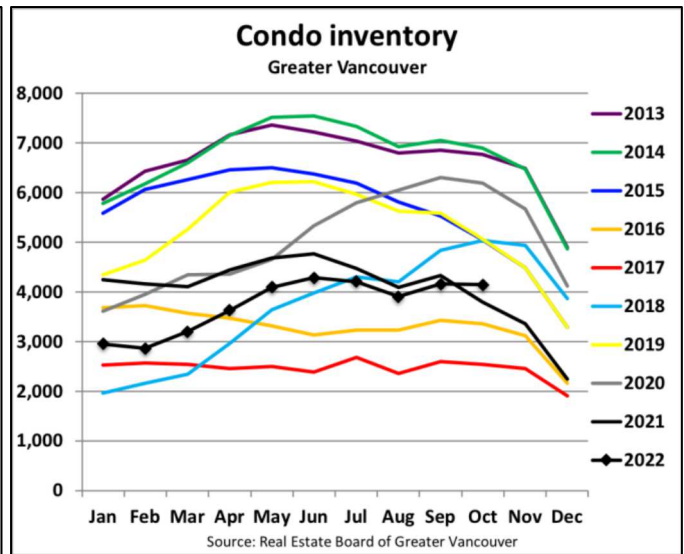
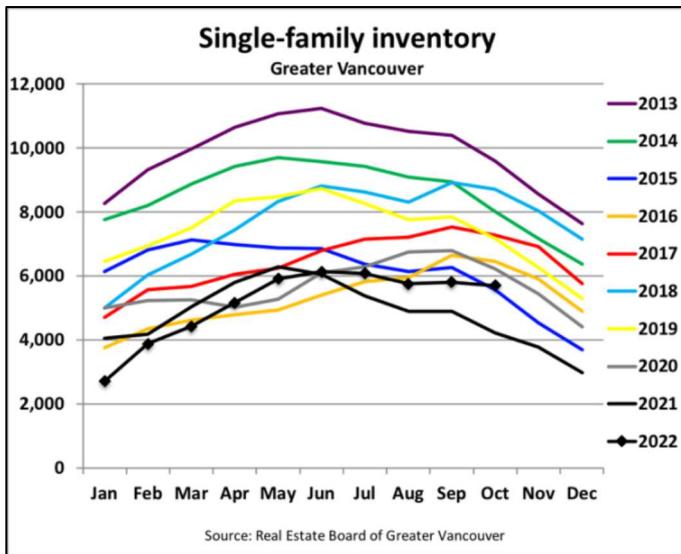


### Inventory remains low

Yes, inventory levels are up 22% y/y off the dead lows from 2021, but a quick look at levels over the past decade gives some important perspective:

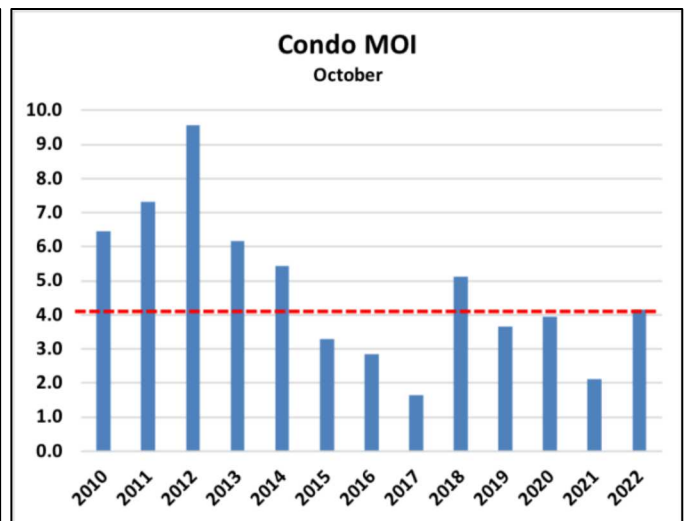
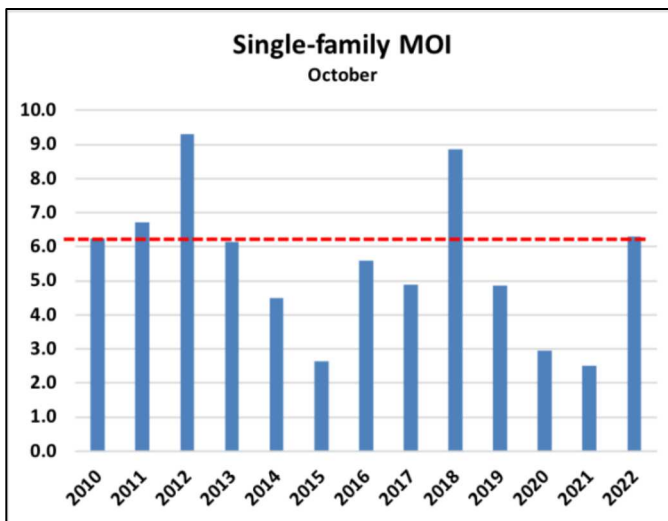






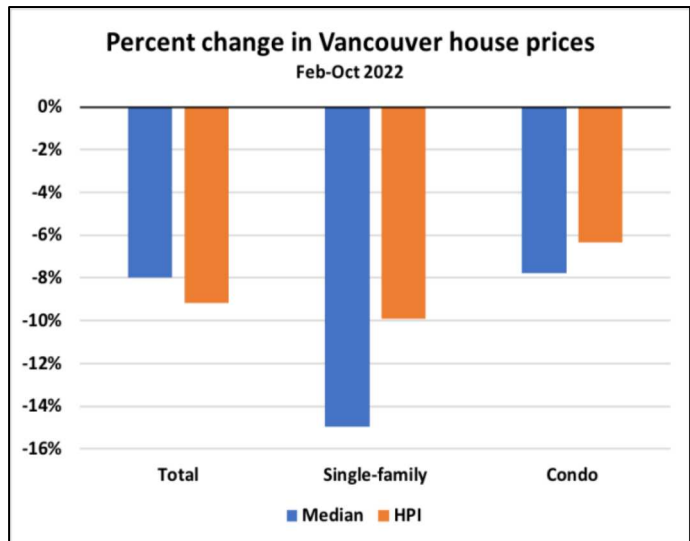
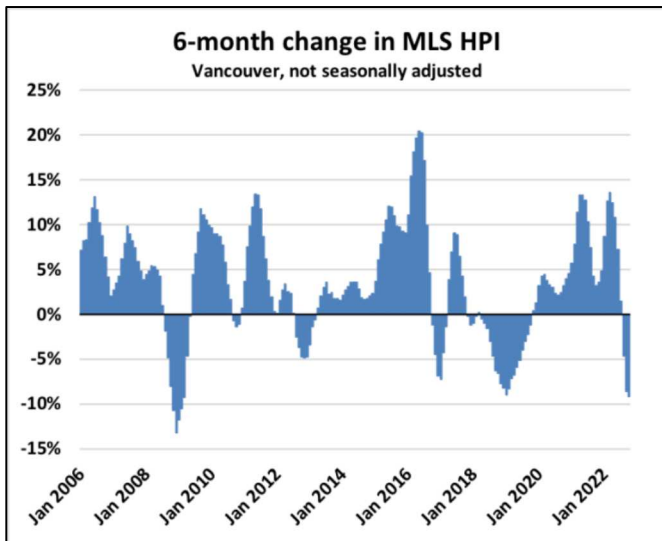
**Market still well balanced**

It's broadly the same story as in Toronto in that months of inventory are not alarmingly high in spite of recent sales weakness. What is interesting is that the segments are reversed here; Condo MOI is still very low while single-family is ticking up:

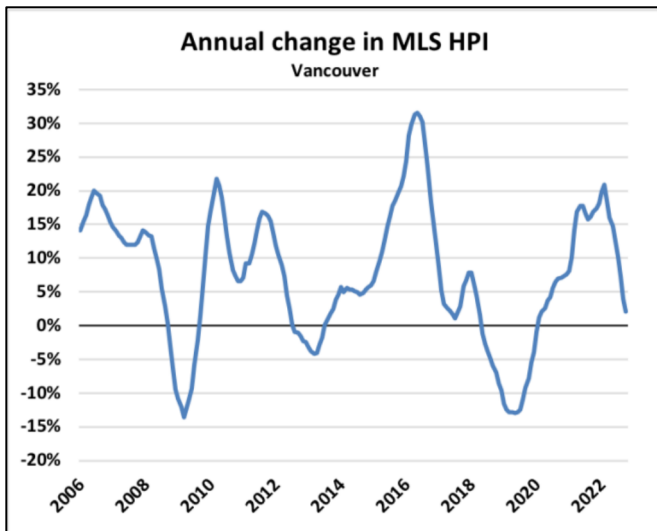


**Prices continue to grind lower**

Prices ticked down by 0.6% m/m in Vancouver according to the MLS HPI. That puts the cumulative decline at about 9% or roughly half the level seen in Toronto. It does however mean that we've now seen the steepest 6-month decline since the Financial Crisis:



Unlike Toronto, prices in Vancouver remain positive on a y/y basis...at least for now.

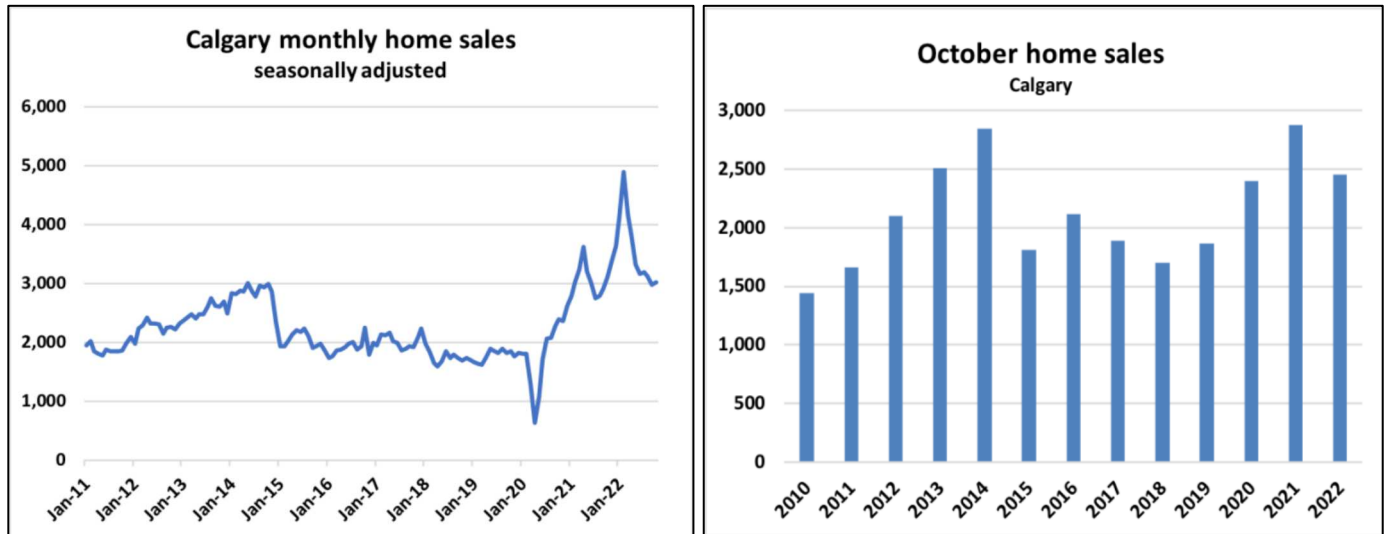




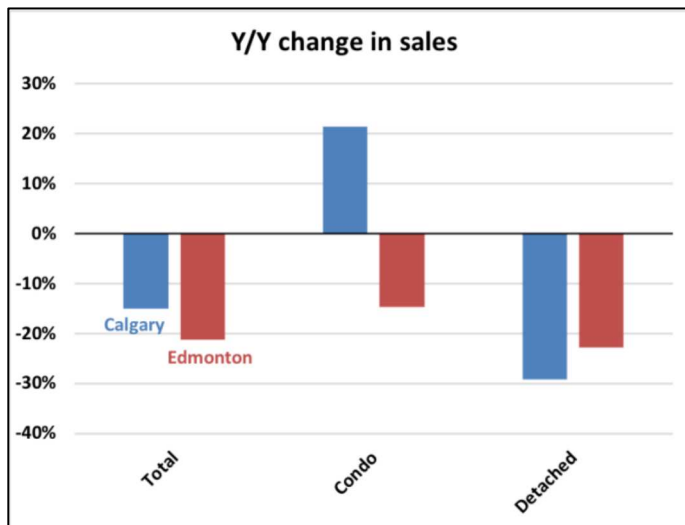
## 4) Alberta still looking solid

### Sales remain strong historically

Calgary continues to see relatively robust demand with sales up 1.5% m/m in October. Even with a 15% drop compared to last year at this time, sales remain well above levels seen over the past decade.

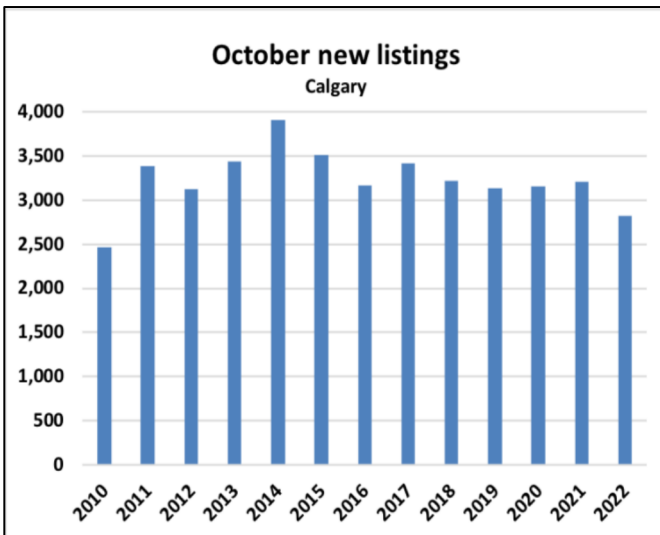


If there's one thing that bears watching it's the ongoing and sizable outperformance in the condo segment which, if anecdotes are to be believed, is being driven in part by a continued influx of investors from Ontario and BC. That's not a problem per se, but it does introduce an extra element of volatility in demand.



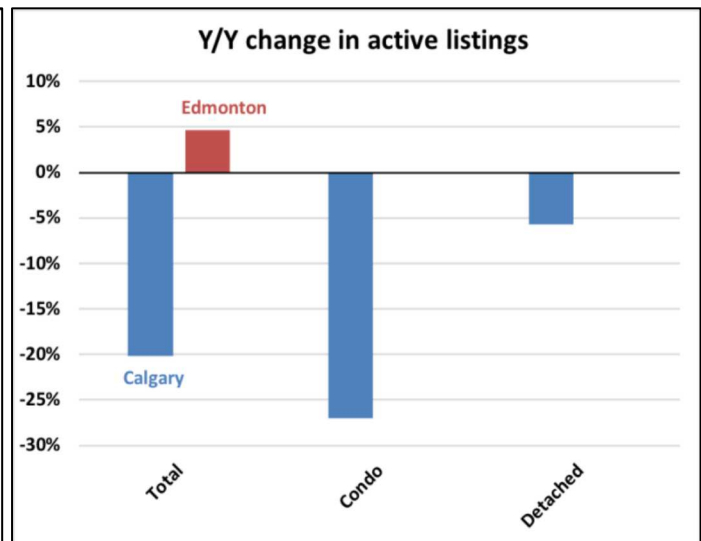
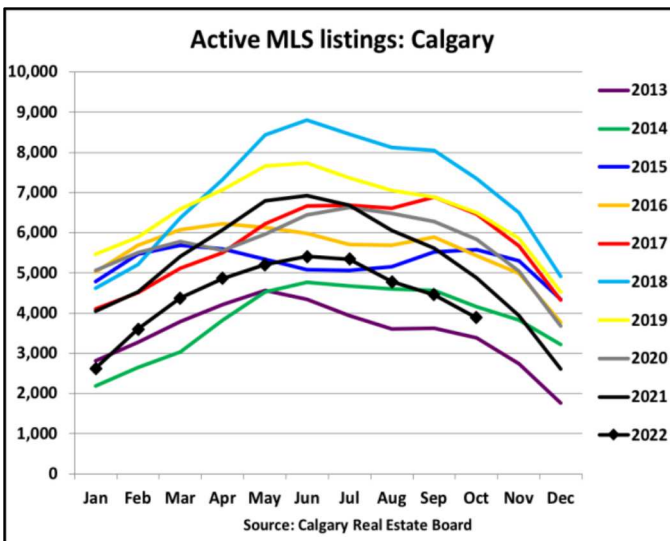
### New listings hit decade lows

The "sellers strike" is happening in Alberta too. The last time that new listings were this low in Calgary for October was back in 2010. Once again, more signs that prospective sellers are content to "ride out" the current sales slowdown and hope for better market conditions in the future.

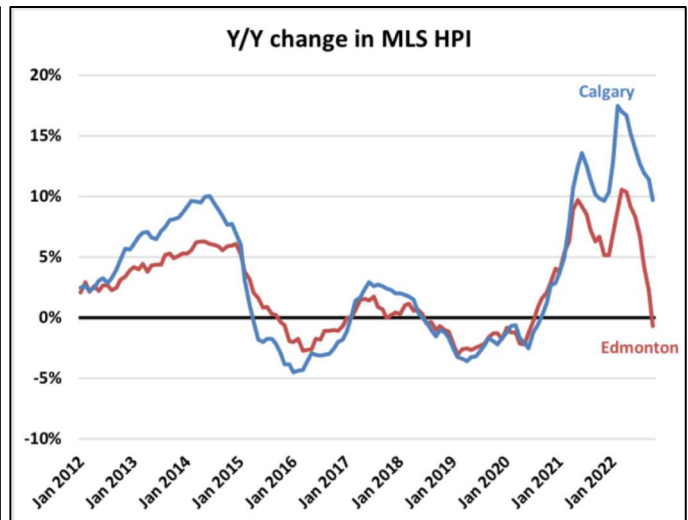
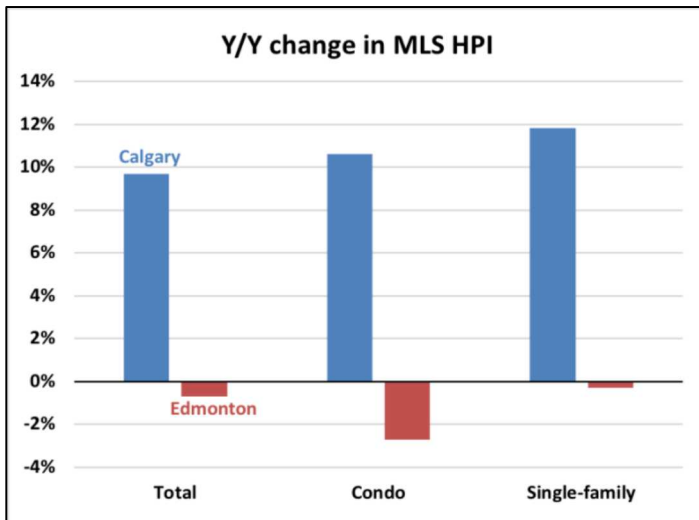


**Inventory levels down 20% y/y**

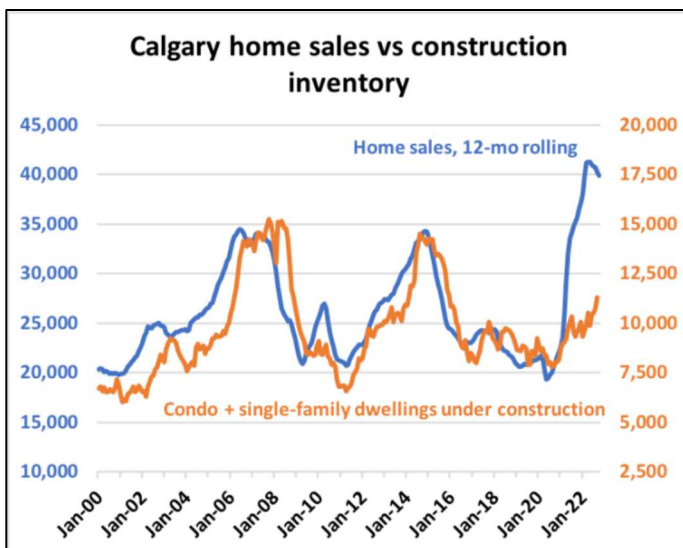
Inventory levels may be on the rise in BC and Ontario metros, but that's not the case in Alberta. Or at least in Calgary where active listings are down 20% compared to this time last year:



House prices in Calgary were up nearly 10% y/y and are now outperforming most metros across the country, a trend I expect will continue for several years yet:



This cycle has been very different in Calgary, at least as it relates to normal developer response to strong demand. With house prices barely above 2007 levels and still the most affordable in the country, strong and rising population growth, and a weak supply response, I think we're still in the early days of Calgary strongly outperforming the rest of the country.



Regards,  
Ben