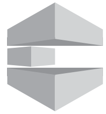

Edge Realty
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April 2023
Metro deep-dive- March data

Compliments of TheMortgageGuyNiagara.com

Quick links:

1) Feds ease foreign buyer ban, codify assistance for distressed borrowers 2) Sellers disappear, inventory tightens in Toronto

3) Vancouver home sales jump, prices firm

4) Calgary continues to outperform

1) Feds ease foreign buyer ban, codify assistance for distressed borrowers

A few policy tidbits from the past couple weeks:

i) Foreign buyer ban relaxed

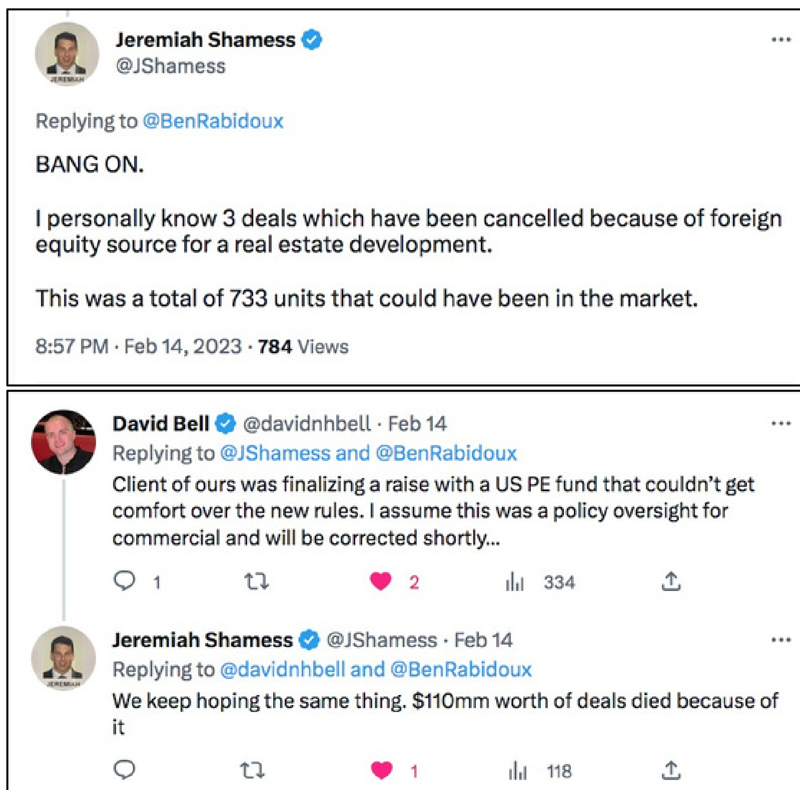
The original iteration of the federal foreign buyer ban, enacted on January 1 of this year, survived less than 90. In a news release1 last week, the Minister of Housing and Diversity and Inclusion announced the following key changes:

• Work permit holders will now be allowed to purchase a primary residence provided they have a minimum of ~~183 days remaining on their permit. Previously, work permit holders had~~ to have filed Canadian taxes for 5 years and have resided in Canada for a minimum of 244 days each of those years.

• Non-resident buyers can now purchase raw land provided it is zoned for residential or mixed used developments.

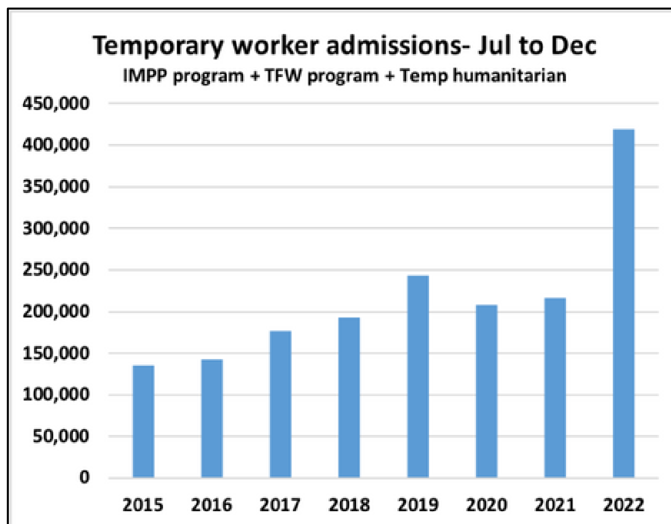
• The corporate foreign control threshold has been increased from 3% to 10%.

The last two bullet points were largely expected. Contacts in the commercial space expressed concern that the original regulations would have the unintended side effect of curtailing new development and potentially putting a freeze on developments already in the pipeline:



But loosening guidelines for temporary workers is a surprise and is much harder to justify. As a reminder, we saw a surge in temporary workers in the back half of 2022:

[1] https://www.cmhc-schl.gc.ca/en/media-newsroom/news-releases/2023/amendments-prohibition-purchase-residential-property-non-canadians-regulations



I suspect this is an attempt to shift some demand away from the tight rental market into a moribund resale market. It will no doubt increase demand at the margins, but I don't think this is fundamentally a game-changer. The average temporary worker salary is reportedly on the order of $43,000 annually[2] which would suggest that the vast majority remain priced out of the market in most Canadian cities.

Still, it's a sign that the feds may be beginning to entertain measures that might help put a floor under the resale market.

ii) Budget codifies assistance for distressed borrowers

The federal budget aimed to codify assistance for distressed mortgage borrowers, with new guidelines now proposed by the Financial Consumer Agency of Canada (FCAC) and open for public consultation.

From the budget:

Elevated interest rates have made it harder for some Canadians to make their mortgage payments, particularly for those with variable rate mortgages. Canadians have the right to work with their mortgage lender to explore mortgage relief options that will help them stay in their home.

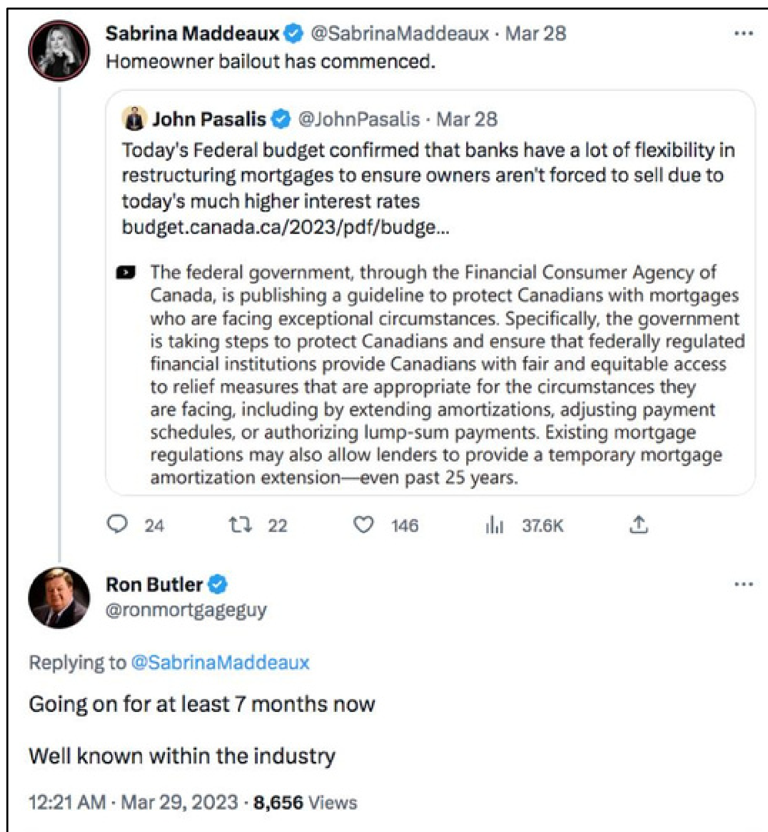
- The federal government, through the Financial Consumer Agency of Canada, is publishing a guideline to protect Canadians with mortgages who are facing exceptional circumstances. Specifically, the government is taking steps to protect Canadians and ensure that federally regulated financial institutions provide Canadians with fair and equitable access to relief measures that are appropriate for the circumstances they are facing, including by extending amortizations, adjusting payment schedules, or authorizing lump-sum payments. Existing mortgage regulations may also allow lenders to provide a temporary mortgage amortization extension—even past 25 years

The FCAC proposal can be read here:

https://www.can ada.ca /en/fin ancial -co nsum er-a gency/c or porate /trans par ency/cons ultations/ mort gage - loans/proposed-guideline.html

IMPORTANTLY: There is NOTHING here that isn't already being practiced in scale by Canadian lenders, a point emphasized by Ron Butler:

[2] https://ca.talent.com/salary?job=temp+worker



Canadian banks have tremendous lee-way already to help distressed borrowers, and nothing in the proposal changes that. It does score the Trudeau government some optics points, but more importantly, it SIGNALS that regulators and policy makers will do everything possible to soften the blow.

This will help at the margins, particularly for static payment variable rate borrowers who will be facing nasty payment shocks at renewal, but it won't alleviate it altogether. For example, allowing borrowers to re-extend amortization at renewal out to 30 years from 20 results in a monthly payment decrease of roughly 24%. So rather than seeing payments double, which many are on track for, they'll go up "only" 76%. It's still a problem, albeit less of one.

iii) Will OSFI tighten lending on investment properties?

I was surprised that OSFI's recently-announced, proposed amendments to the B20 guidelines seek to tighten financing for end-users rather than targeting demand for second properties...particularly given the role that rising investor demand played in the post-COVID housing melt-up. But OSFI may be forced to revisit that. From the budget:

> The government is committed to ensuring that investor activity, especially among those who own a significant number of investment properties, is helping, not hurting, housing affordability in Canada and will review whether the government needs to rebalance the housing market in favour of Canadians looking for a home to live in.

There was talk in early 2022 that OSFI was considering raising down payment requirements on second dwellings and also considering prohibiting the use of borrowed funds as source down payment (eg HELOCs/refis). I suspect this forthcoming review will re-examine those policy options.

iv) Feds propose parliamentary review of money laundering legislation

Some strong language in the budget:

Canada must not be a financial haven for oligarchs or the kleptocratic apparatchiks of authoritarian, corrupt, or theocratic regimes—such as those of Russia, China, Iran, and Haiti. We will not allow our world-renowned financial system to be used to clandestinely and illegally move money to fund foreign interference inside Canada [...] In Budget 2023, the government is proposing further important measures to deter, detect, and prosecute financial crimes, protect financial institutions from foreign interference, and protect Canadians from the emerging risks associated with crypto-assets.

Among the measures proposed is a formal parliamentary review of existing legislation related to money laundering and terrorist financing as well as pushing forward with a publicly accessible national beneficial ownership registry which would help bring Canada in line with international anti-money laundering standards.

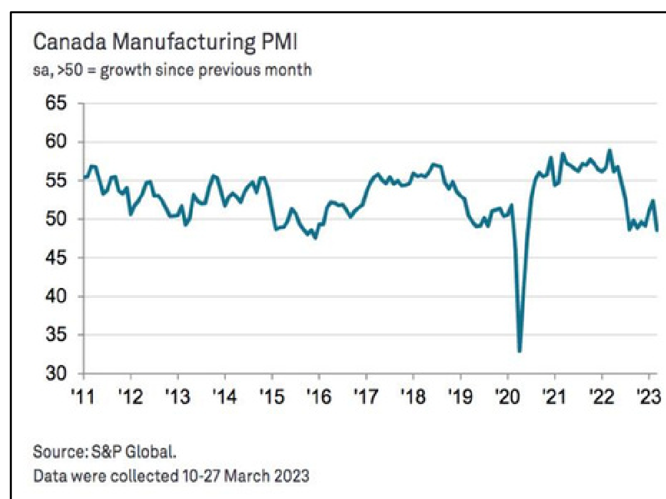
Weak-ish macro data

My base case remains that we'll likely see a recession later in 2023 or early 2024. Macro data has been mixed on this front, but most forward-looking indicators seem to be pointing in this direction.
Readers will rightly point out that we had yet another solid employment report that obliterated expectations, but remember that employment is a LAGGING indicator that weakens only after the economy softens materially....and that's particularly true right now when employers will try to hold onto workers as long as possible given how hard it was to find workers in the first place.

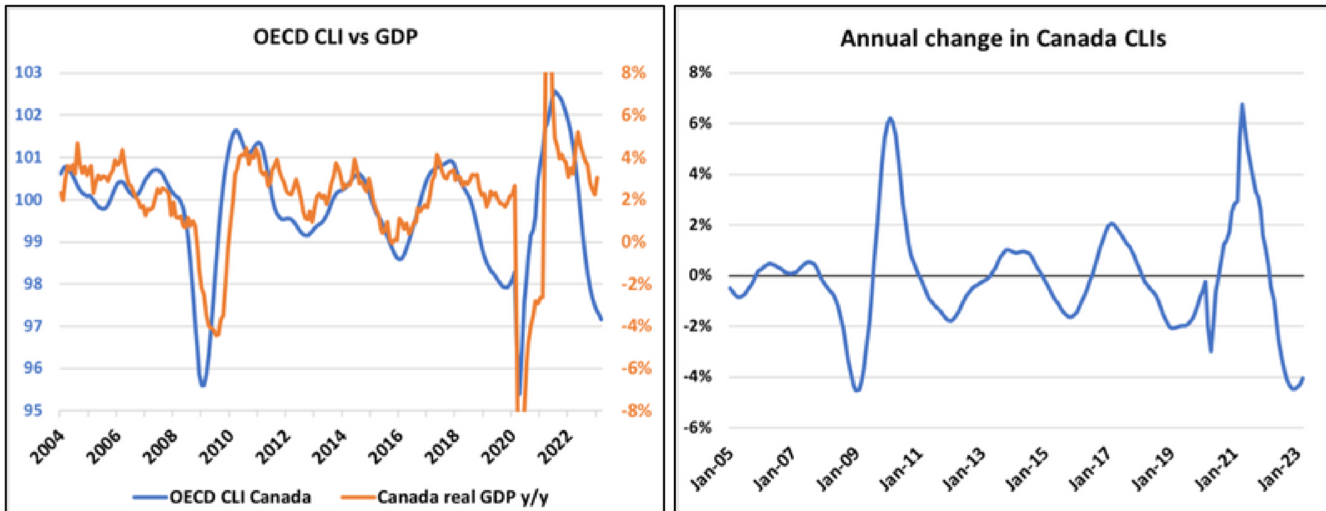
Let's review some of the more forward-looking data points. We start with the Markit PMI which measures manufacturing activity. Note that a reading below 50 is contractionary:

After accounting for seasonal factors, the S&P Global Canada Manufacturing Purchasing Managers' Index® (PMI®) registered 48.6, down noticeably from 52.4 in February. It was the lowest reading recorded by the index since June 2020

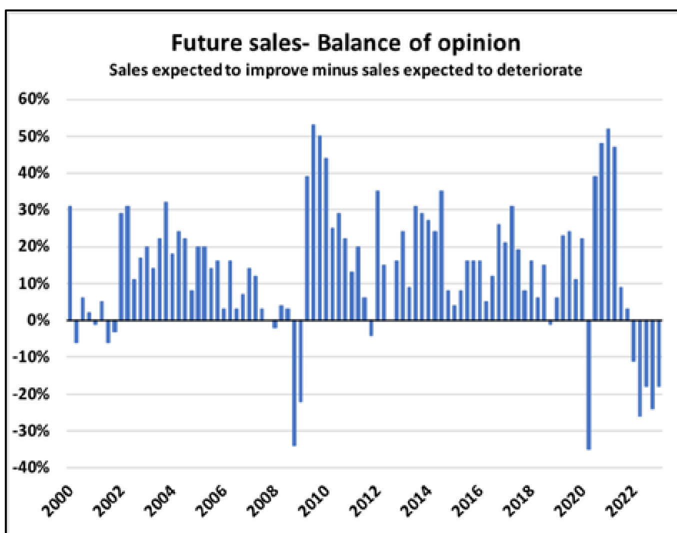
There were concurrent falls in both output and new orders during March, the first contractions of the year so far. The rate of decline in production was modest, with firms signaling the fall was closely linked to the steepest contraction of new orders since last October.



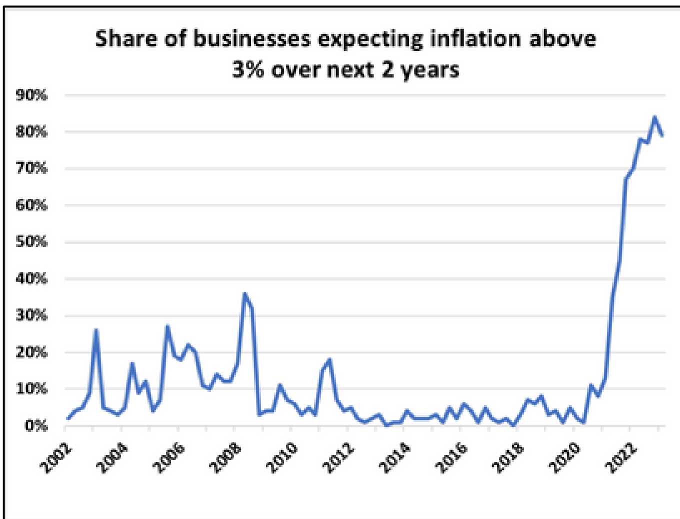
Next we turn to the OECD's latest Composite Leading Indicators (CLI) which registered a flat month for the G20 aggregate, but Canada bucked the trend by posting yet another monthly decline in March. That now makes 20 consecutive monthly declines, with the annual change in the index now at levels last seen during the Financial Crisis. The gap between current CLI levels and GDP growth is the widest on record.

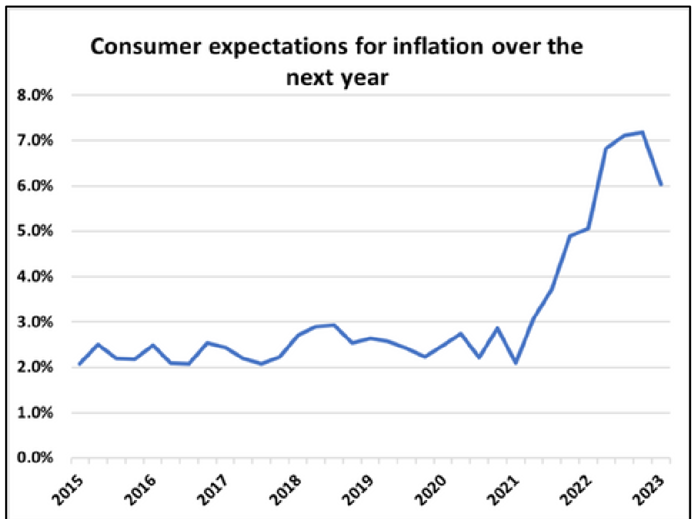


This week we also got important survey data from the Bank of Canada. The Business Outlook Survey showed the longest stretch of negative sales expectations among businesses on record. When businesses tell you their sales are about to weaken, history tells us we should listen:

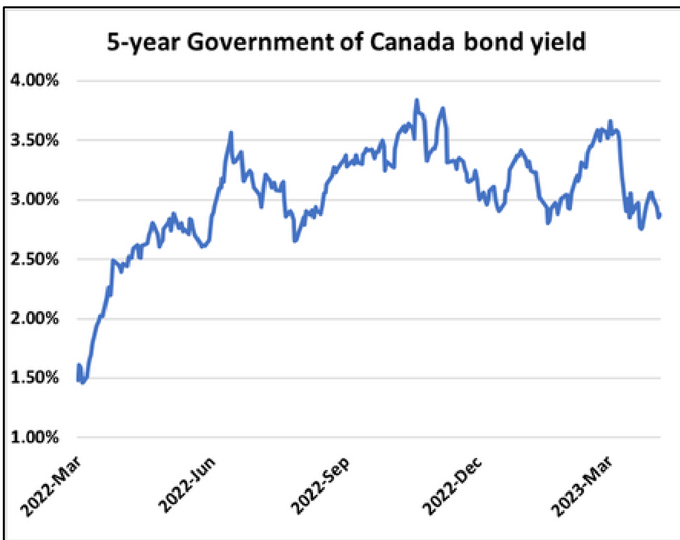


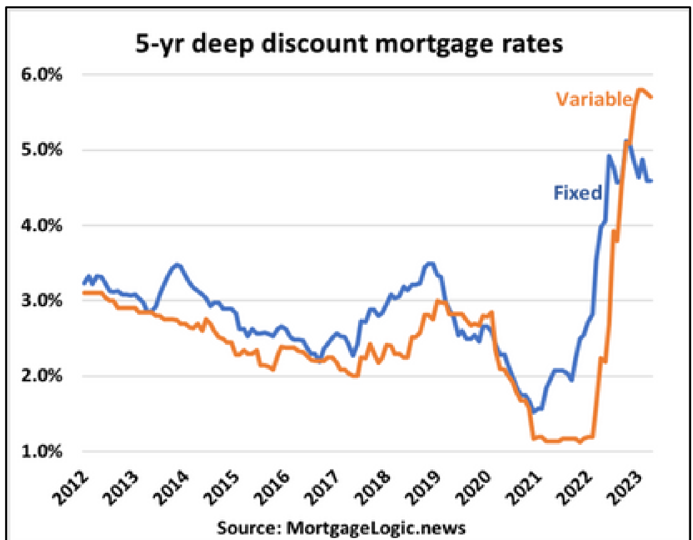
Muddying the waters for the Bank of Canada, we learned that in spite of storm clouds on the economic horizon, inflation expectations among consumers and businesses remain stubbornly high. Nearly 80% of business expect inflation to average above 3% over the next 2 years. The share is lower among consumers and is trending more definitively downward, but even here we see inflation expectations over the next year running 3x higher than long-term norms:





All of that has meant more cross currents for the bond market as it tries to price in the Bank of Canada's rate path. The all-important 5-year bond yield remains range-bound but volatile while mortgage rates remain under downward pressure as we head into the spring selling season:

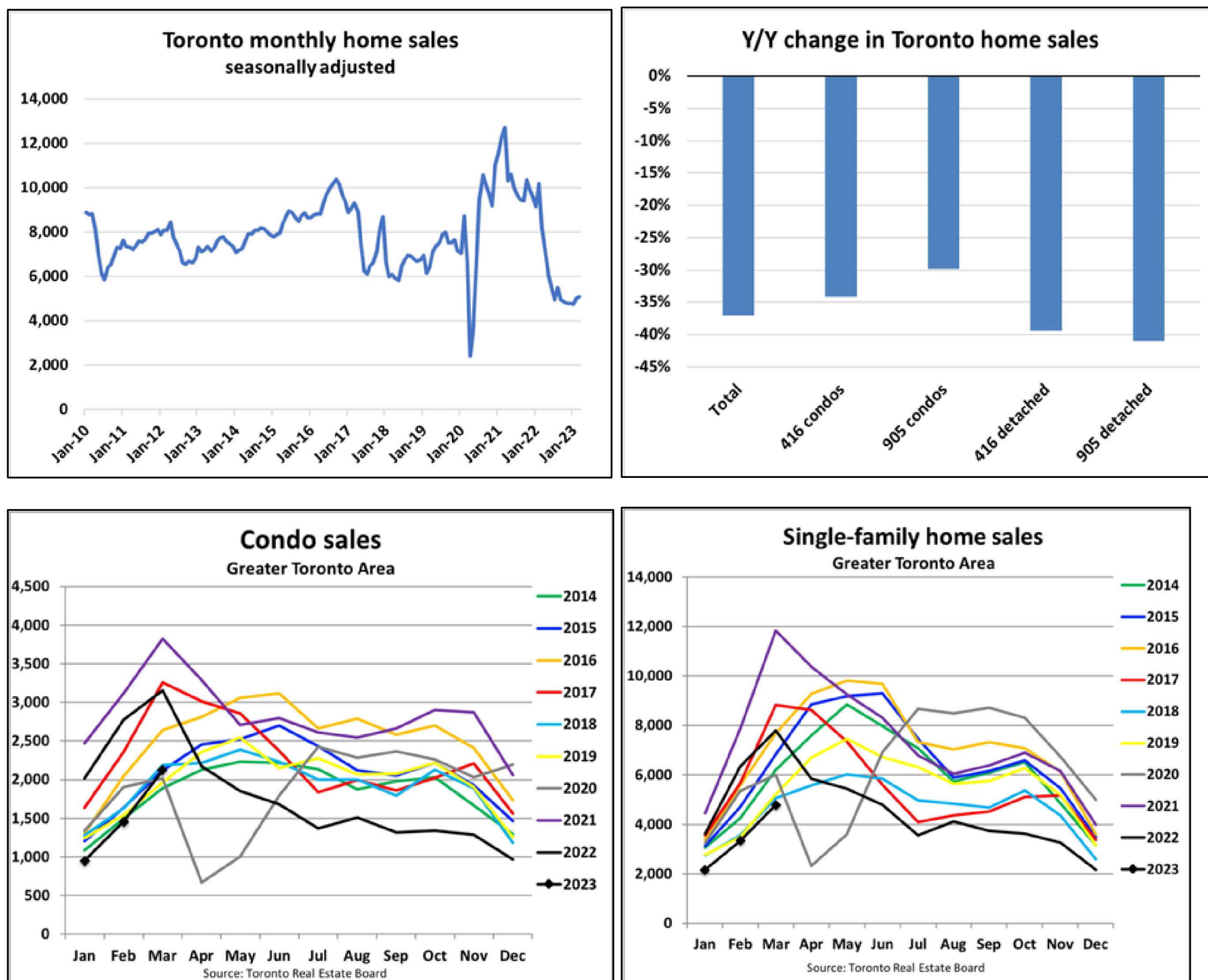




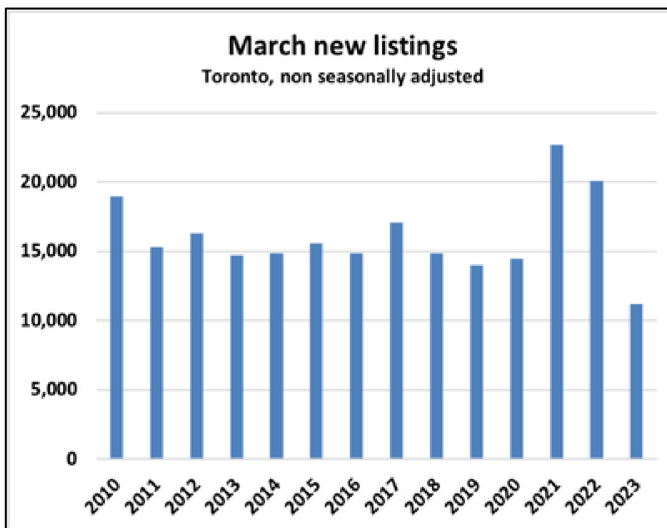
2) Sellers disappear, inventory tightens in Toronto

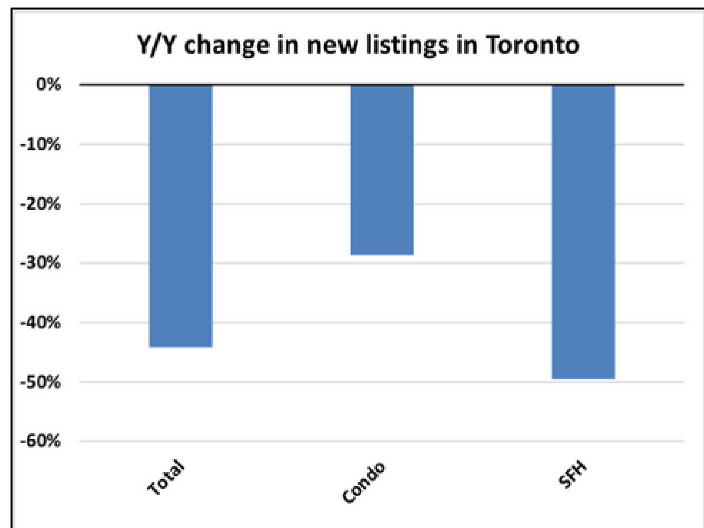
Seasonally adjusted home sales in Toronto rose a reported 1.6% m/m in March, but that comes off a significant 3.8% downward revision to the February numbers. So were sales actually higher? TRREB has a habit at times of "over-reporting" sales in a given month, then quietly revising those sales lower which has the effect of providing a constant m/m "lift" to the most recent data.

Regardless, it seems clear from discussions with front-line practitioners that this market is heating up. I continue to expect a 20-30% bounce in sales this spring:

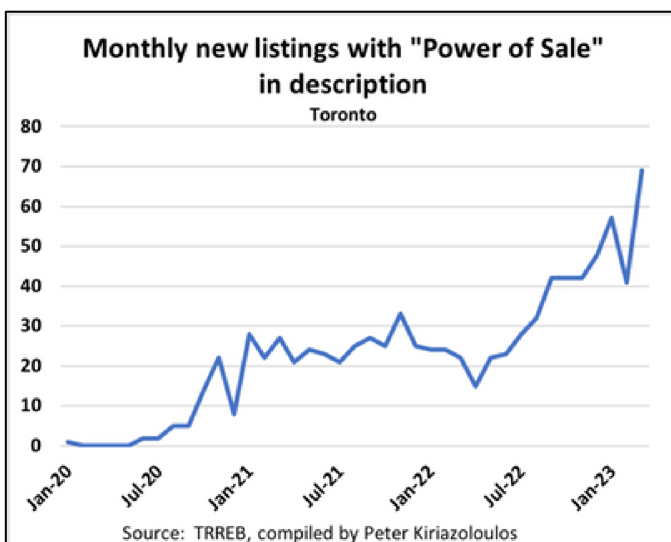


The bigger story remains the lack of sellers. New listings were down a whopping 44% to hit the lowest February level in over a decade:





No one is selling, and until that changes, this market will continue to tilt towards sellers. I thought by now we would see more of a supply response from the impact of higher rates, but that hasn't been the case. Yes, power of sale listings are on the rise, but the absolute numbers are just not enough to move the needle for now (thanks here to Peter Kiriazoloulos and Dan Foche for the data):



For the time being these forced sales are being more than offset by sellers pulling listings and waiting for an imminent bounce in prices back to record highs. That "price anchoring" effect is widespread in Canada, reinforced by muscle memory from a series of short, shallow housing downturns over the past 20 years.

Consider the Reddit post below and the many comments encouraging the original poster to "wait a year or so...sell it when the market goes back up". There's an understanding that housing downturns in Canada are measured in months rather than years:

reddit PERSONALFINANCECANADA comments other discussions (1)

113 Housing Walkaway from 200k or close a 1.5m pre-con in July. Same unit is selling for 1.2m now. (self.PersonalFinar

submitted 3 hours ago by Other-Dust1247

First time poster here...

Please share experience, advice and or suggestions on how to best approach the situation:

Bought a pre-con in 2021 for 1.530m, all deposit of 200k is from current house. Deposit balance and other closing cost is approx 150k. I'm thinking of staying in my current where I'm not going to be financially stretched with high mortgage, I still have equity(over 100k), I can save more, etc. VS Closing the new house where I'm going to be paying high mortgage(I can afford but no savings), negative equity, the house is not all desire, etc

I guess what I'm really looking for - is it worth closing and wait for interest rate to loosen and for the value of the house to level?

Should I just stay in current house, add savings plus equity and go for the house I truly desire in a couple of years?

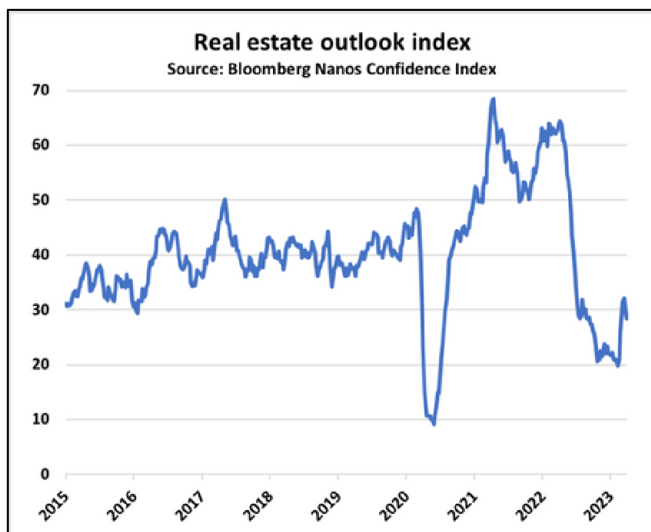
Thanks.

117 comments share save hide give award report crosspost

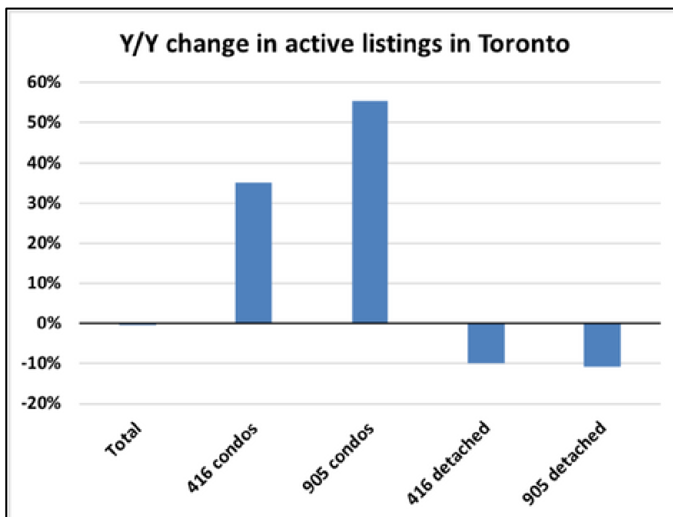
[–] Bigreggie 0 points an hour ago

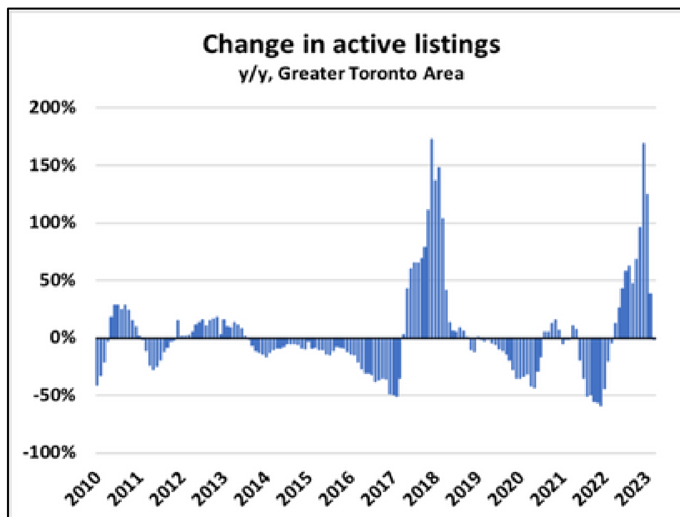
I think it's worth closing on, I'm in a similar situation where we bought pre-construction for a condo in Cambridge. It's closing in July and I'm having second thoughts as well haha! If you can afford it, i would close on it and rent it out and lose on it for a year or so and then turn around and sell it when the market goes back up. I've been thru these up-and-down cycles before, Toronto is a growing city and people need places to live immigration is at an all-time high and will be for many years to come.

Of note, real estate sentiment has slipped of late. After posting the strongest 4-week increase since the COVID lows, the real estate outlook index has fallen 4 points in the past 2 weeks. Something to keep an eye on:



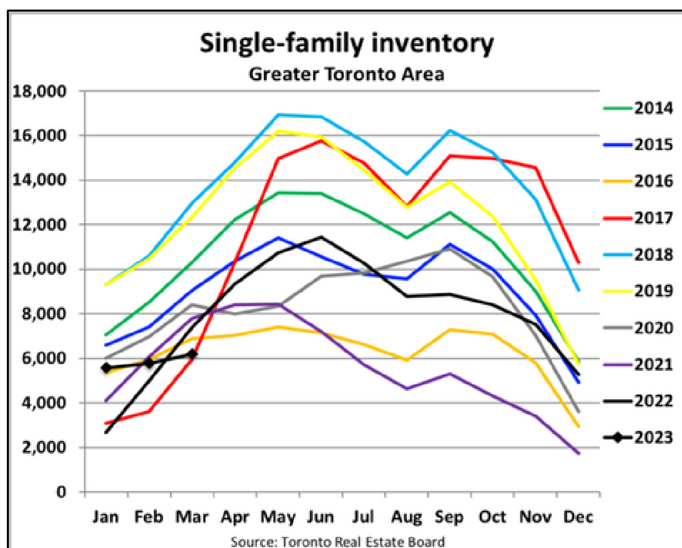
Inventory was effectively flat compared to last year, but that masks a sharp divergence between segments; Single-family inventory is now falling relative to last year while it's building in the condo segment. This is the first time since early 2022 that inventory levels have been flat compared to the prior year

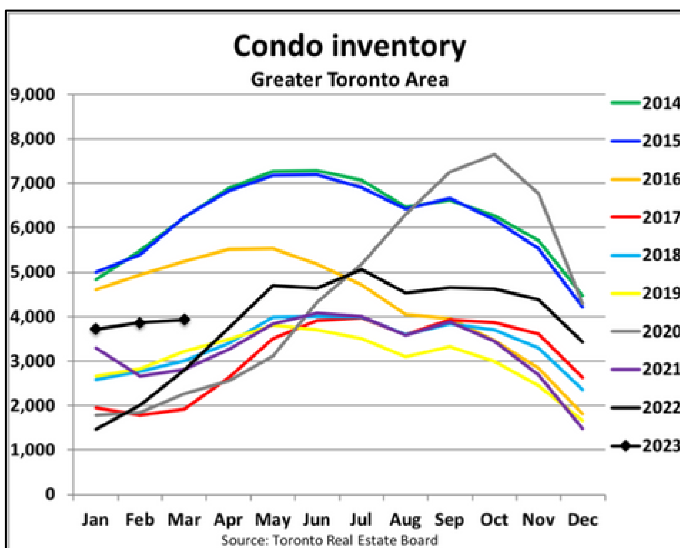




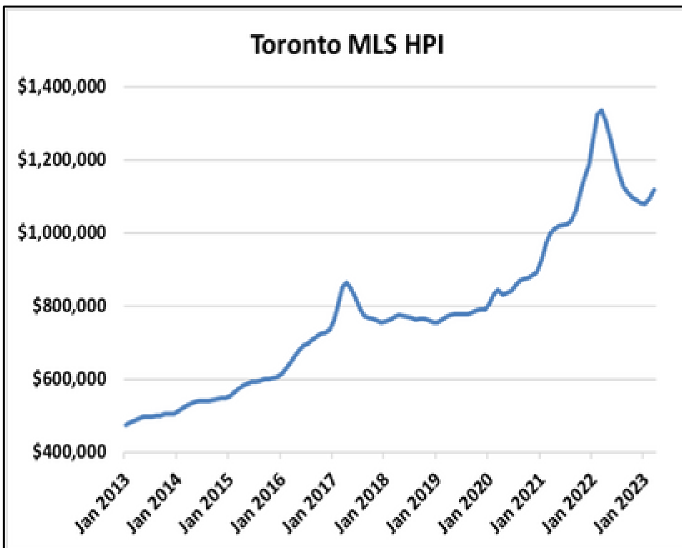
Note in particular the flat inventory trends so far in 2023 at a time when we typically see strong builds ahead of the key spring selling season.

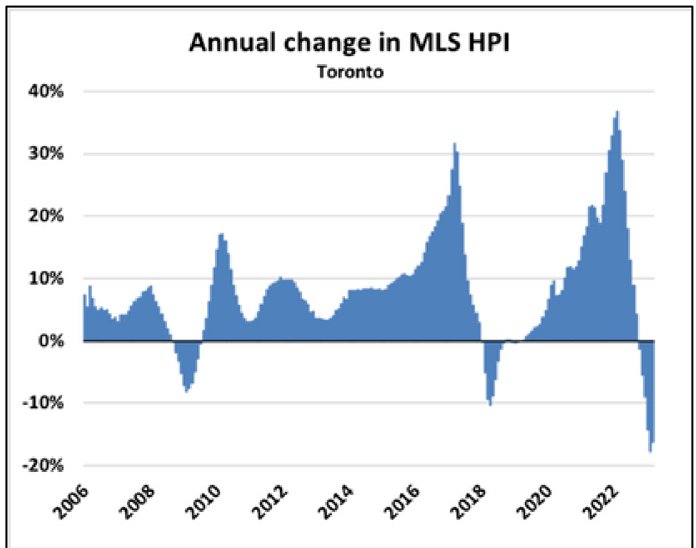
The trend in the single-family segment is striking. We now have as few homes for sale as we did in March of 2017 when the market was so hot that policy makers implemented a series of measures to cool demand. It's a trend few expected to see a year into a major housing downturn:



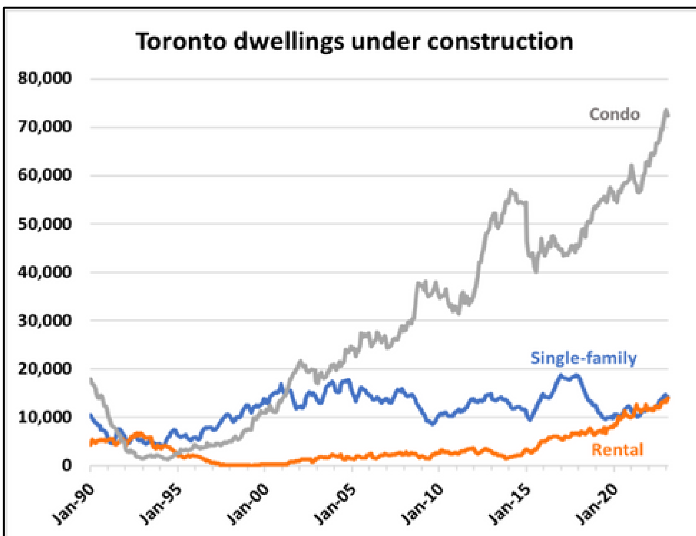


Prices are beginning to firm, with the HPI up 2.5% m/m. This is the preliminary, non-seasonally adjusted version, so we'll have to see how it looks when the seasonal adjustments are added and released on the 15th. Seasonally adjusted average prices were up 0.8% m/m:

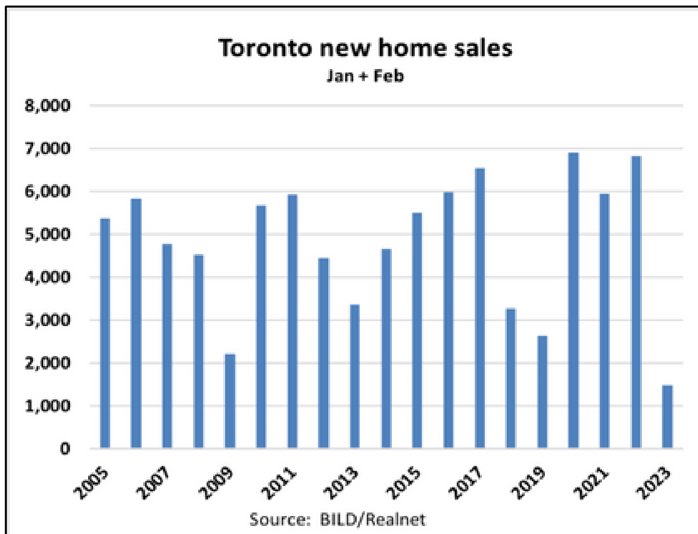




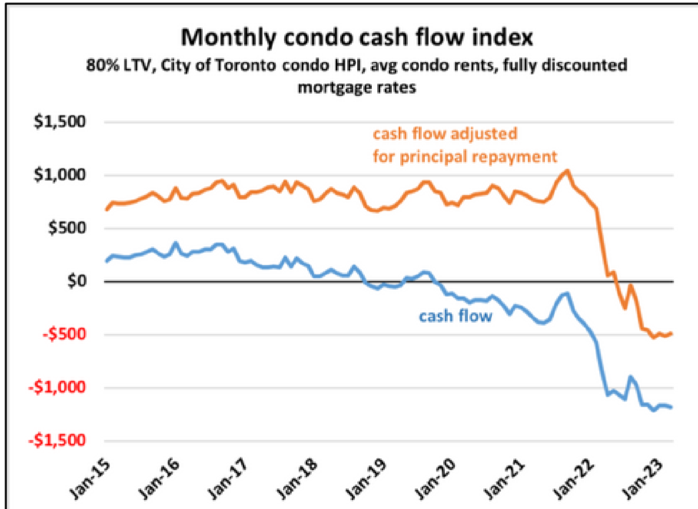
Dwellings under construction in the GTA slipped 0.5% m/m as completions outpaced new starts. There are still over 100,000 homes in the construction pipeline, with most being in the multi-family segment (rentals and condos):



Construction activity is likely set to slow sharply this year. We need look no further than the latest new home sales data where preconstruction demand fell nearly 80% y/y and has seen the weakest start to the year in over 20 years:

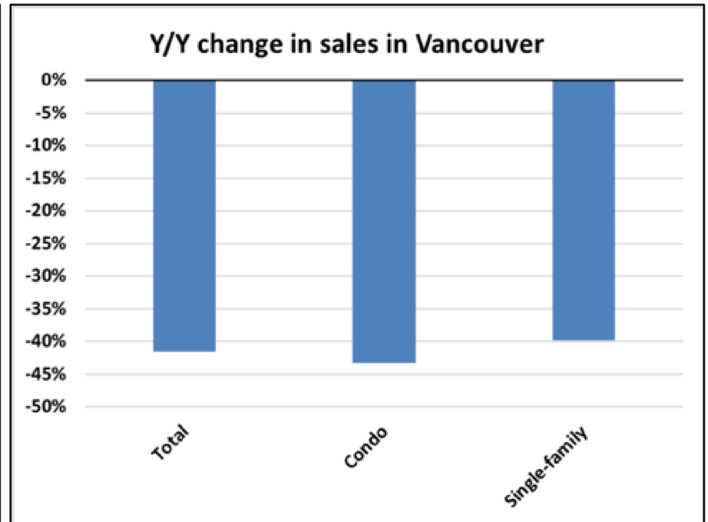


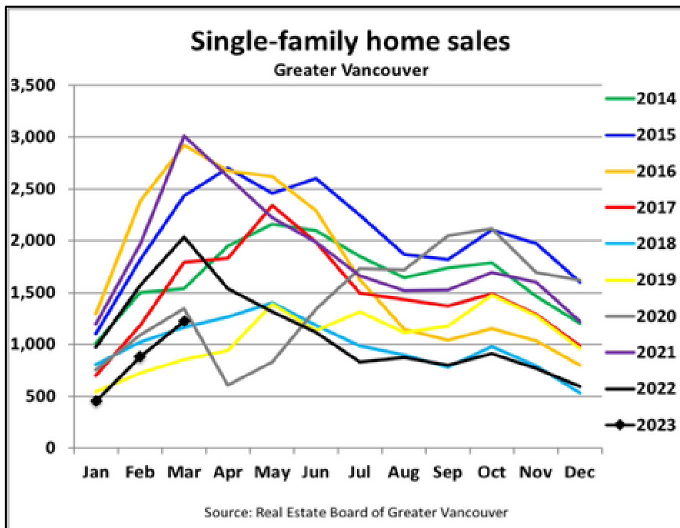
It's hard to envision it getting better in the near term based on rental economics. Investors, who account for the lion's share of preconstruction sales, are facing steep negative carry on properties financed at 80% LTV.

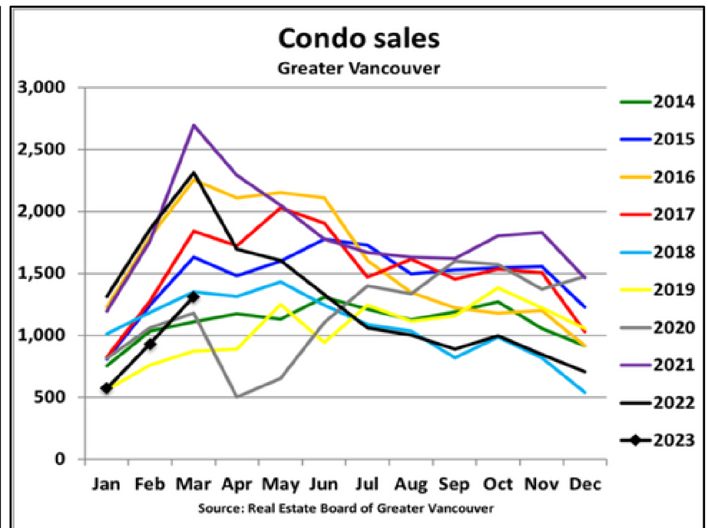


3) Vancouver home sales jump, prices firm

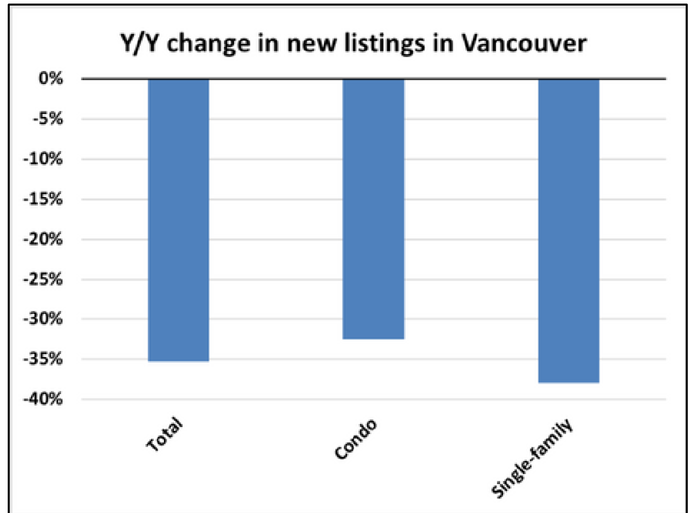
Home sales in Vancouver jumped 4% m/m building on a seasonally adjusted 15% bounce in February. Still, that leaves sales down 43% from last year and more than 55% from peak:



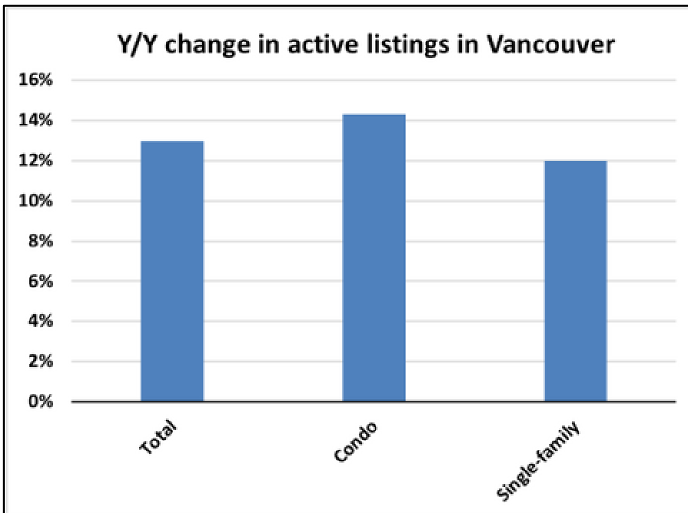


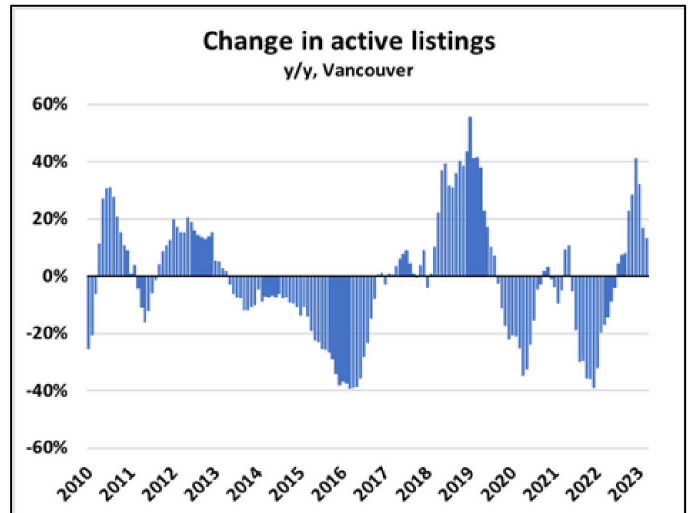


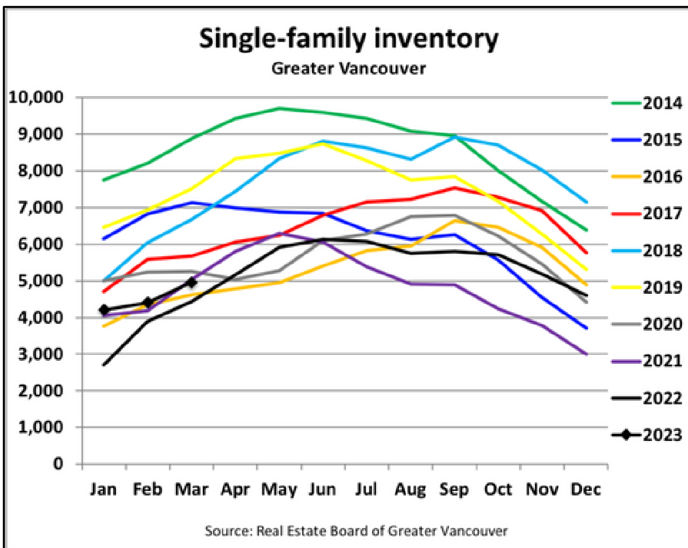
New listings were down 35% y/y (and down almost 40% in the single-family segment) to hit decade lows for the month:

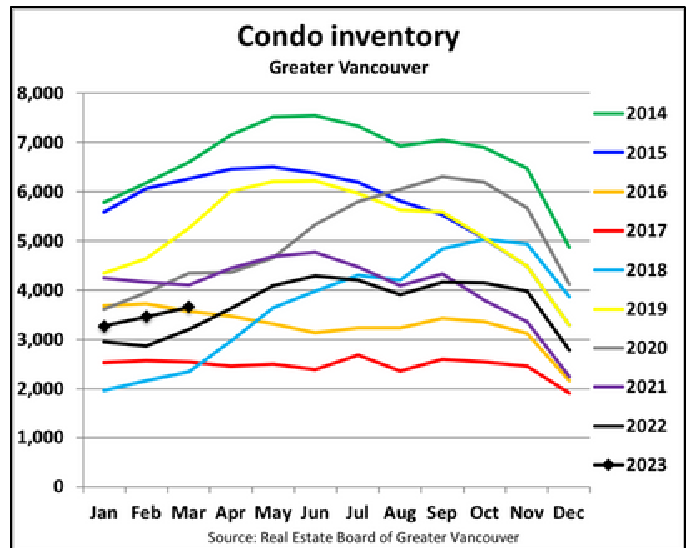


Inventory was up 13% y/y but is still not concerningly high by any means. In fact, single-family inventory is barely off decade lows:

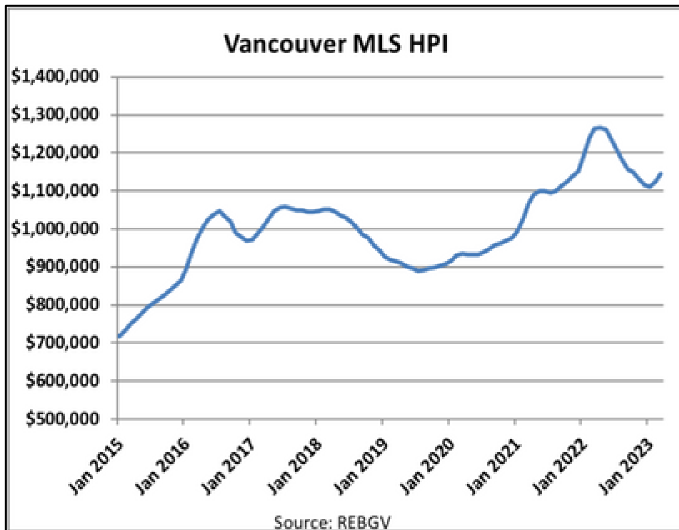


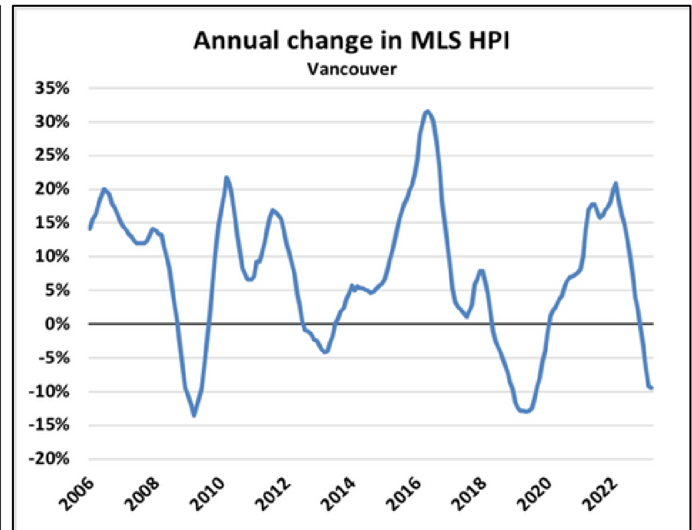


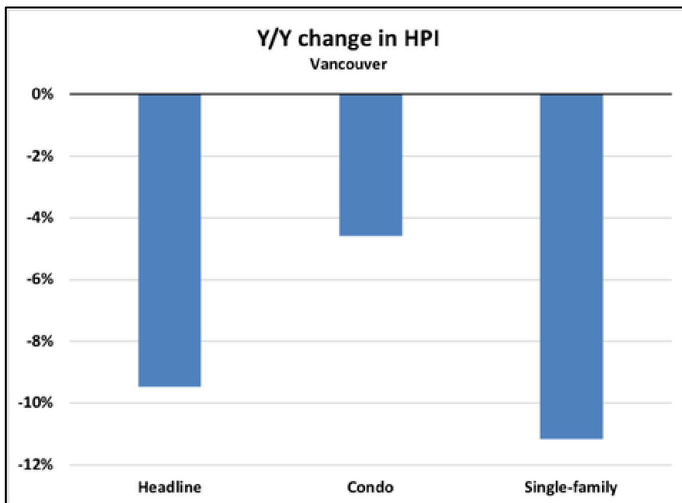




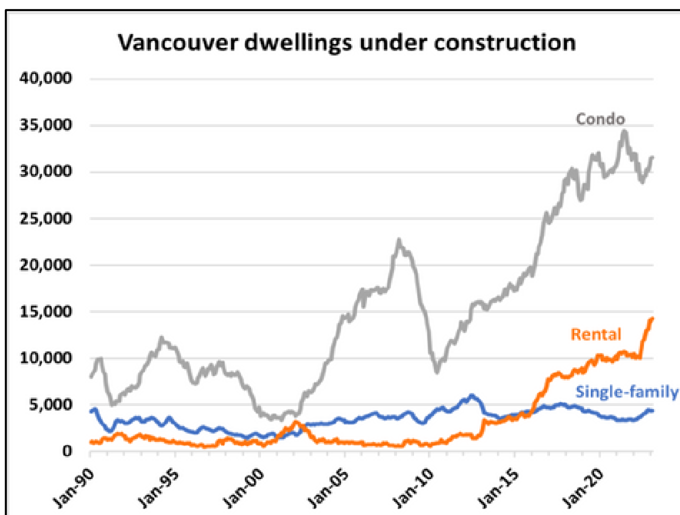
Prices appear to be firming. The non-seasonally adjusted HPI was up 1.8% m/m and 2.7% for the single-family segment but we will need to see the final seasonally adjusted numbers on the 15th to know for sure.





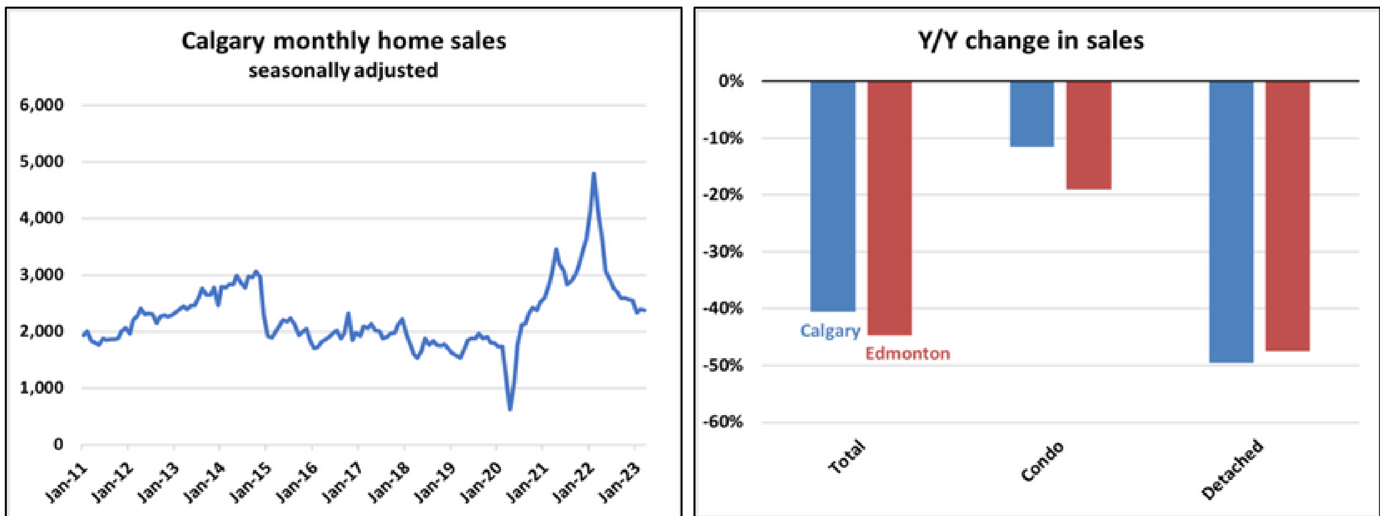


Dwellings under construction ticked up 1.2% m/m to break the 50,000 mark for the first time on record:

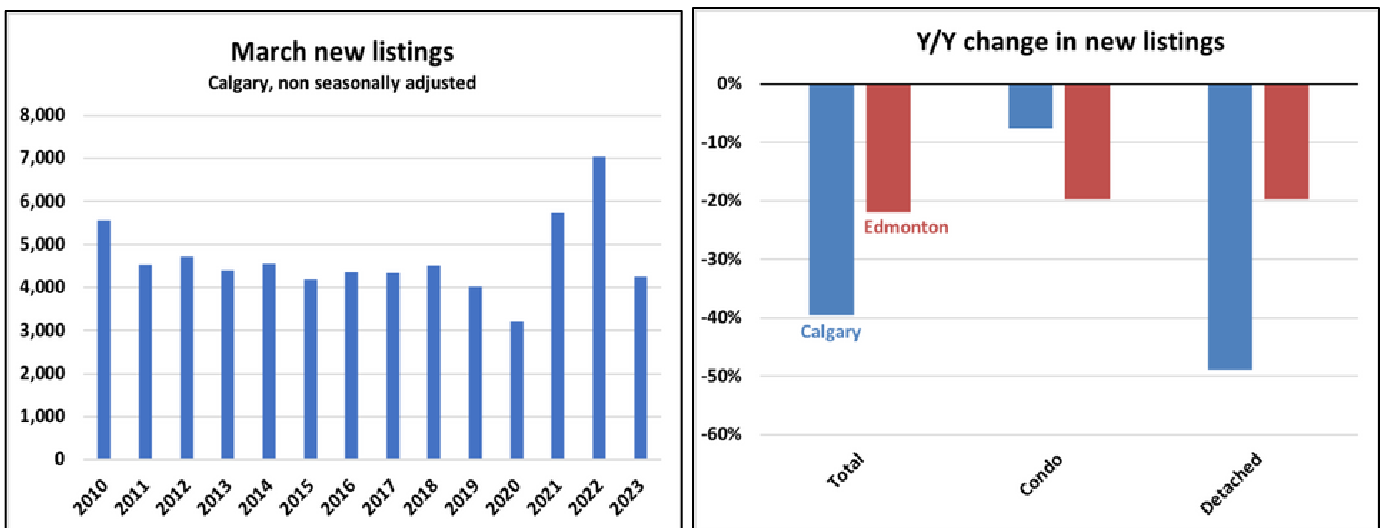


4) Calgary continues to outperform

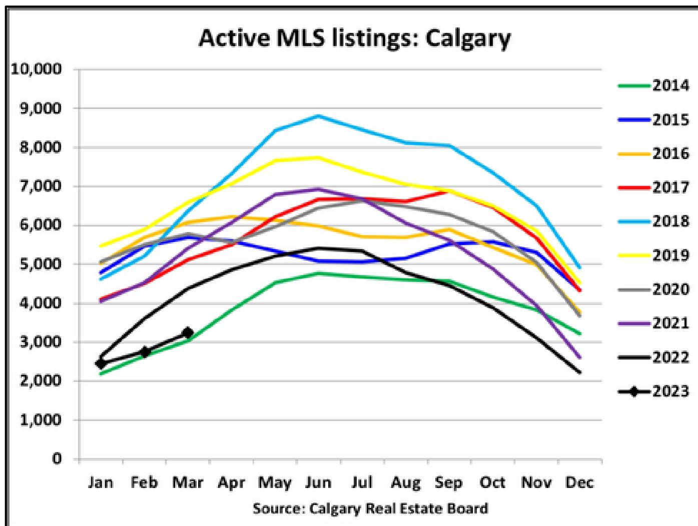
Calgary seasonally adjusted home sales declined 0.8% m/m in March but remain above levels seen from 2015-2020. Sales were down 40% y/y in Calgary and 45% y/y in Edmonton with both seeing disproportionate weakness in the single-family segment:

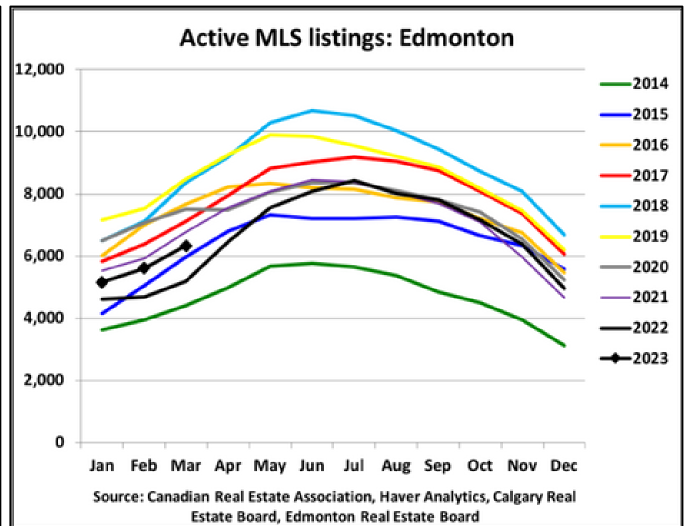


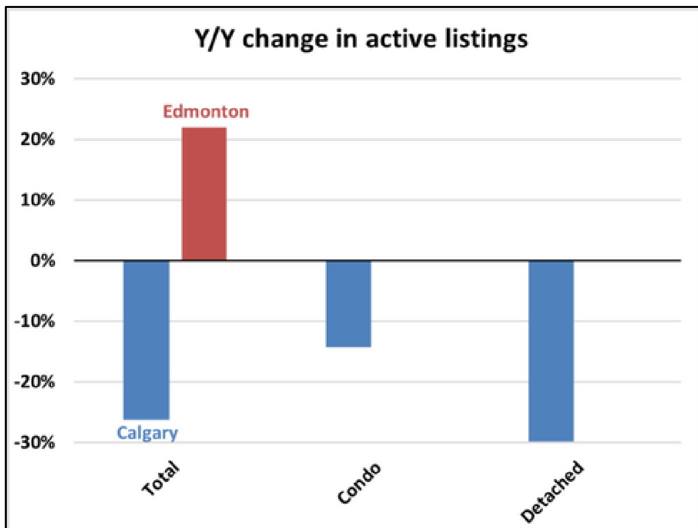
New listings were down nearly 40%, but that's off a record high last year.

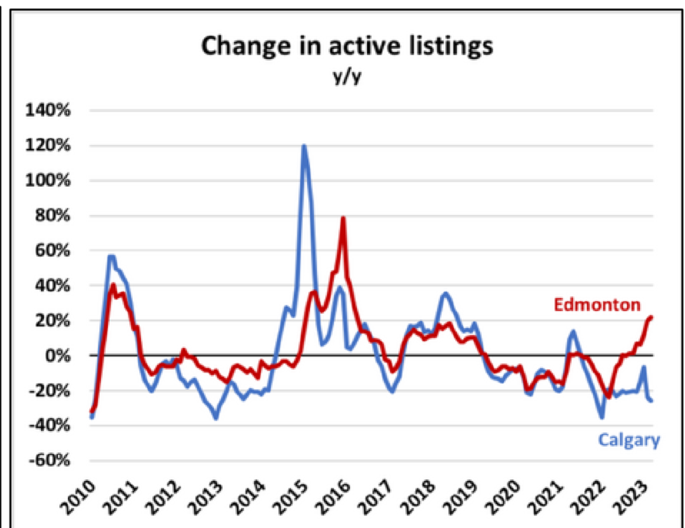


Inventory levels remain near decade lows in Calgary (-26% y/y) and are at average levels in Edmonton where supply is up 22% y/y.

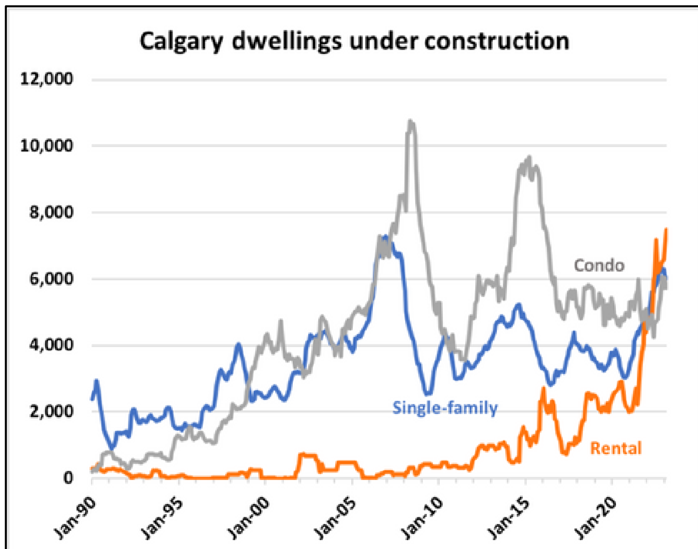


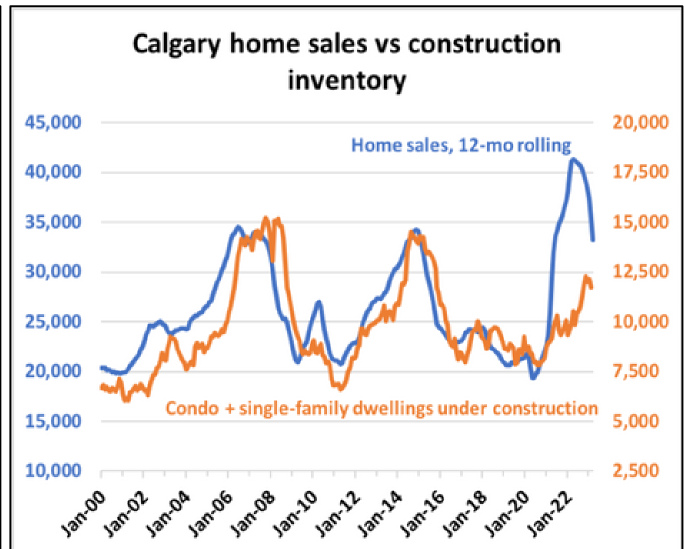




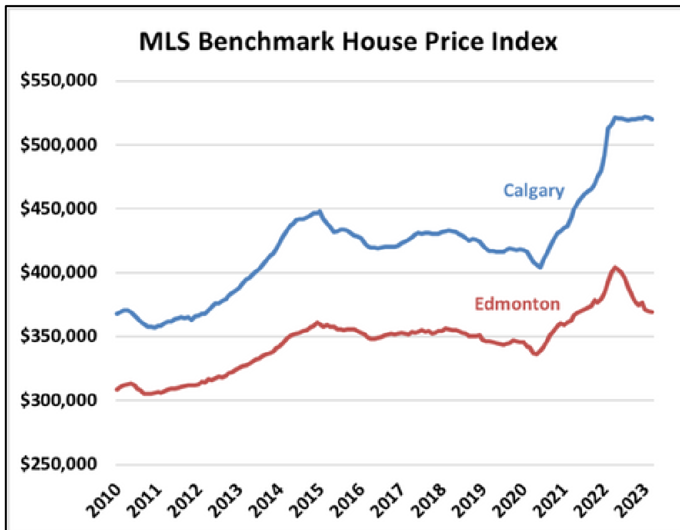


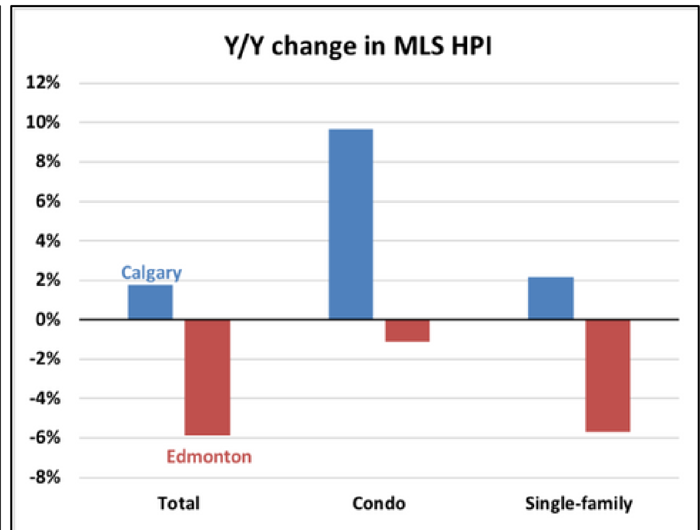
Under construction inventory jumped 2.3% m/m led by a big jump in rental activity which hit new all-time highs. There are now 7,500 purpose-built rentals being built in Calgary accounting for nearly 40% of total construction activity....both a record by a substantial margin. Still, there are no signs of over-building based on my models:





Prices are holding firm in Calgary, effectively flat y/y, while they've declined 8% y/y in Edmonton. Both are performing considerably better than the national average, a trend I expect to continue.





Have a great day!
Ben

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