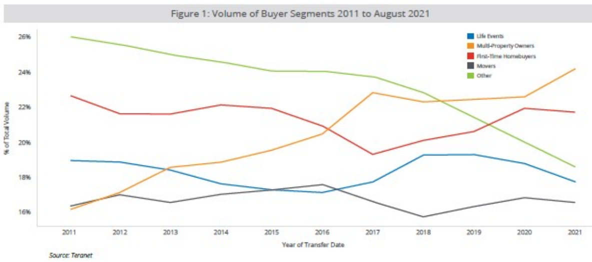
Housing Market Digest

Canada, January 2022

Investment Buying?

Teranet has used its data resources to produce some really interesting data on home buyer segments within Ontario. This chart has gotten a lot of attention.



It can be found in a report, here: https://financialservices.teranet.ca/acton/attachment/2216/f-637ac64b-a4b6-4ec4-a1c9-474121b4d723/1/-/-/-/-/Teranet%20Market%20Insight%20Report%20Q4%202021.pdf

The Bank of Canada has done a similar report: https://www.bankofcanada.ca/2022/01/staff-analytical-note-2022-1/

In both reports, the data on "investors" actually shows multiple-property owners and/or multi-mortgage borrowers. But, of course, there are other circumstances in which people buy a housing property while they still own another:

- One of them is a vacation property.
- The owners want to have residences in different cities (they primarily live in one place but spend a lot of time in another). I expect that there is more of this in the Covid era.
- The newly-acquired dwelling is being renovated.
- Some of these multi-mortgage people might be parents who have signed onto their kids' mortgages. So, some purchases that are really FTBs might get counted as repeat buyers or investors (this might be an important factor driving the data).

The available data probably can't support much analysis to interpret the multi-property/mortgage situations and support conclusions about how much of this is actually investment. But, one thing that Teranet and BoC might be able to do is look at two subsets of multi-property owners: how many buyers have the properties in the same area (County, Region, or District) versus how many have the properties in differing locations? Multi-location/multi-property ownership will often indicate personal use, not investment.

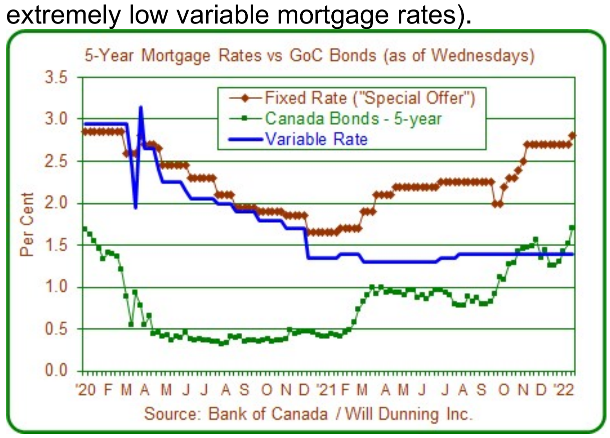
A corollary issue is how much of investment buying is purchases of properties that were already investments versus purchases from owner-occupants. This matters, in terms of understanding the effects. Teranet/BoC might be able to investigate this (looking at how many properties are sold by a multi-property owner and purchased by the same).

CMHC is apparently considering making it more difficult for people to buy housing for investment. The federal government's 13 year old game of Whack-A-Mole continues, and it will continue to be futile (and it will continue to worsen the problem of insufficient overall housing supply).

Interest Rates

Bond yields have surged during the past three weeks, due to escalating geo-political risks (other asset prices are behaving accordingly). My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) is up only slightly (now 2.8% versus the prior 2.7%). This is still a neutral rate, but we could see a further rise in the near term.

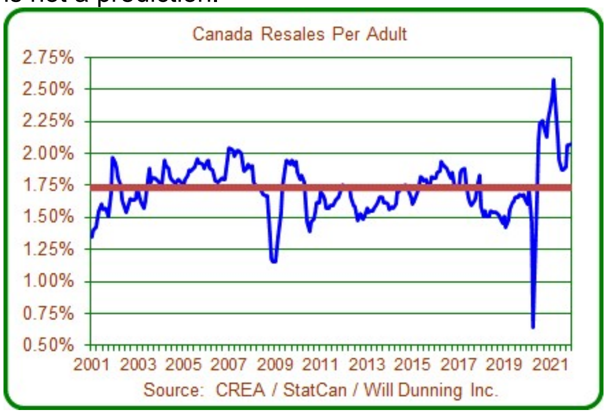
Meanwhile, as I've been arguing since the middle of last year, the Bank of Canada's "policy rate" (the overnight rate) is too low given the economic conditions that exist, and that is supporting overly-inflated asset values (including housing, due to still extremely low variable mortgage rates).



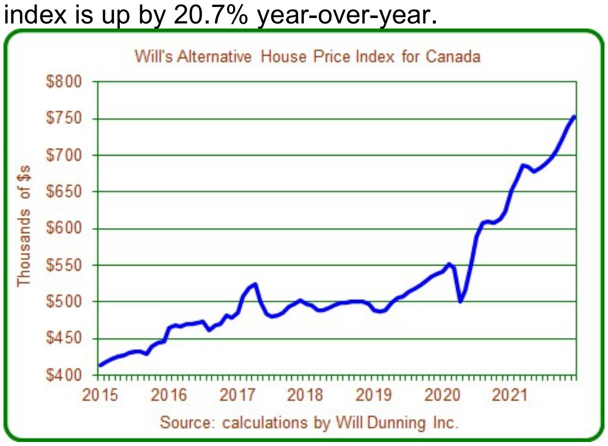
Resale Markets

In September, I published a report that looked at the costs of owning versus renting across Canada. It found that there was an extremely large gap in favour of home ownership during the first half of last year, which reasonably explained the very strong buying activity that was occurring. Since then, rates for fixed-rate mortgages have increased sharply (I used 2.19% for 2021-Q2, versus the current 2.8%) and meanwhile prices have increased sharply. I haven't yet recalculated the costs of owning versus renting, but when I do, they will show that the gap has closed substantially.

The sales rate for Canada has shown little change in the past three months, and remains quite robust (in the area of 650,000 annualized, which is 20% above the long-term population-adjusted average of 544,000). I believe that the recent rises in interest rates (and the pending rise for variable rates) should soon cause the sales rate to retreat in the direction of the long-term average. But, this is not a prediction.

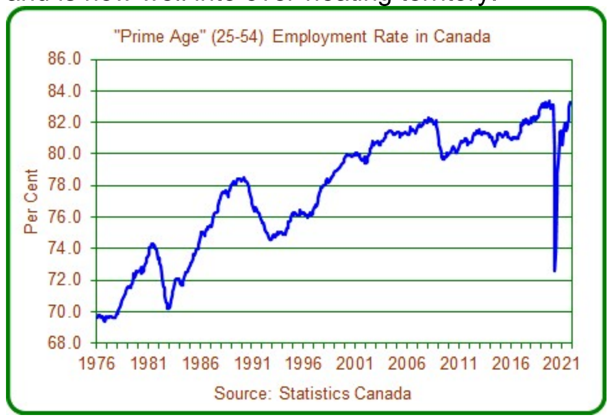


Flows of new listings remain only moderate. The national sales-to-new-listings ratio was 80% in December, far above my estimate that the balanced market threshold is 52%. Volumes of active listings continue to shrink, and CREA calculates that at the end of the month, the available inventory (active listings) was equivalent to just 1.58 months of sales, far below the long-term average (2003 to the present) is 5.0 months. Prices continue to surge: my alternative price index is up by 20.7% year-over-year.



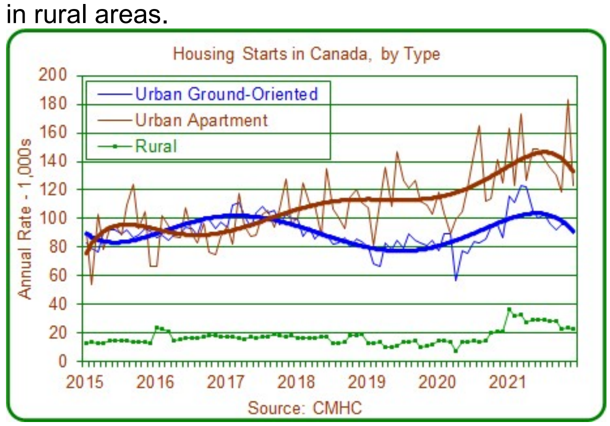
Employment

My preferred metric for the economy is the employment rate (the share of people who have jobs, for the 25-54 age group). This has shown full employment (82%) since the middle of last year and is now well into over-heating territory.



Housing Starts

Housing starts remain very strong for apartments, but are retreating for low-rises in urban areas and in rural areas.



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