

AUGUST
**RARE
MARKET
REPORT**

BY: DANIEL FOCH

Director of Economic Research

You're (not) Richer
Than You Think



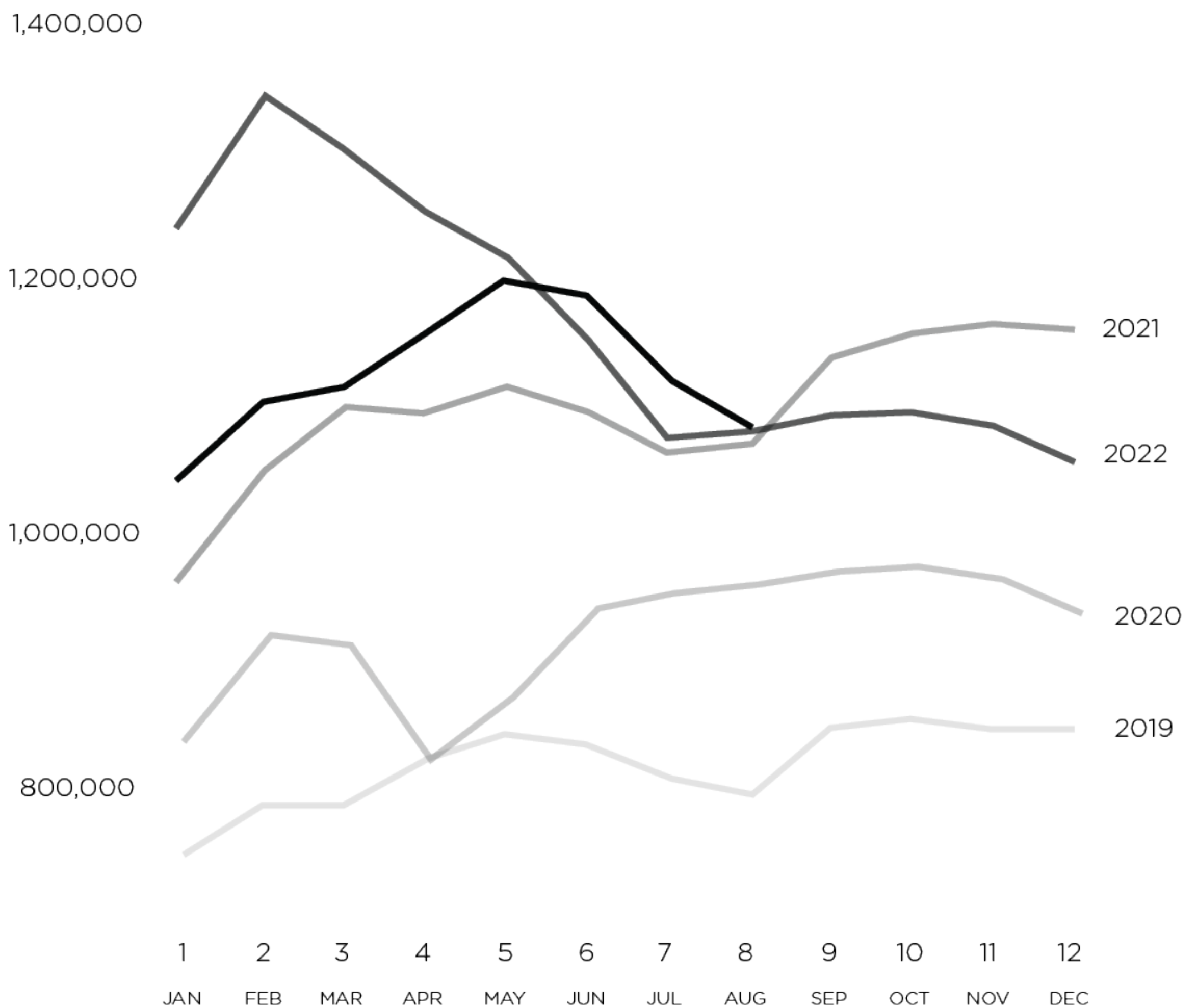
HOUSE PRICES

The market has been quickly trying to erase the price gains of this year's hot spring market.

The market has technically washed 2 years of price volatility away, with August 2023 house prices coming in nearly identical to August 2022 and 2021.

House prices have fallen for the 3rd consecutive month, and have outpaced their typical downward summer seasonality, which typically represents about a 2-4% drop from May to August.

Avg. Sale Price



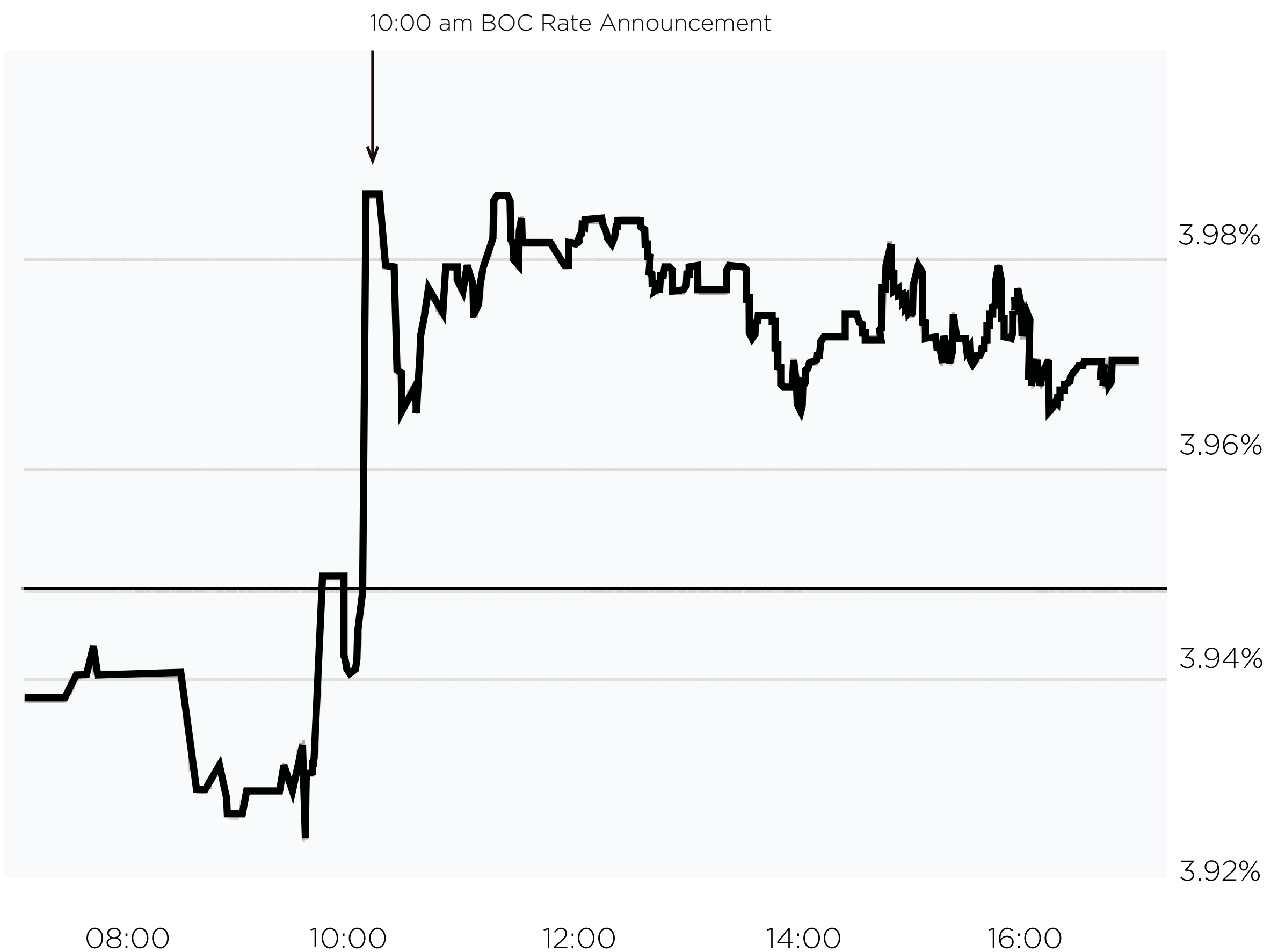
INTEREST RATES

The Bank of Canada elected to hold interest rates, but this means very little for buyers, as the Canada 5yr bond yield jumped up during the Bank's rate announcement.

The 5YR bond yield is the primary pricing mechanism for 5-year fixed rate mortgages, which 75% of buyers prefer to variable rates in the current market.

Many are quick to assume that the fall market will be strong like this year's spring market because rates are "paused" again. The distinct difference is that fixed rates are 100bps higher than they were in Q1. The Bank of Canada is really only gaming the supply side of the equation by squeezing existing owners, since buyers depend on the bond yield.

BX: TBMKCA-05Y



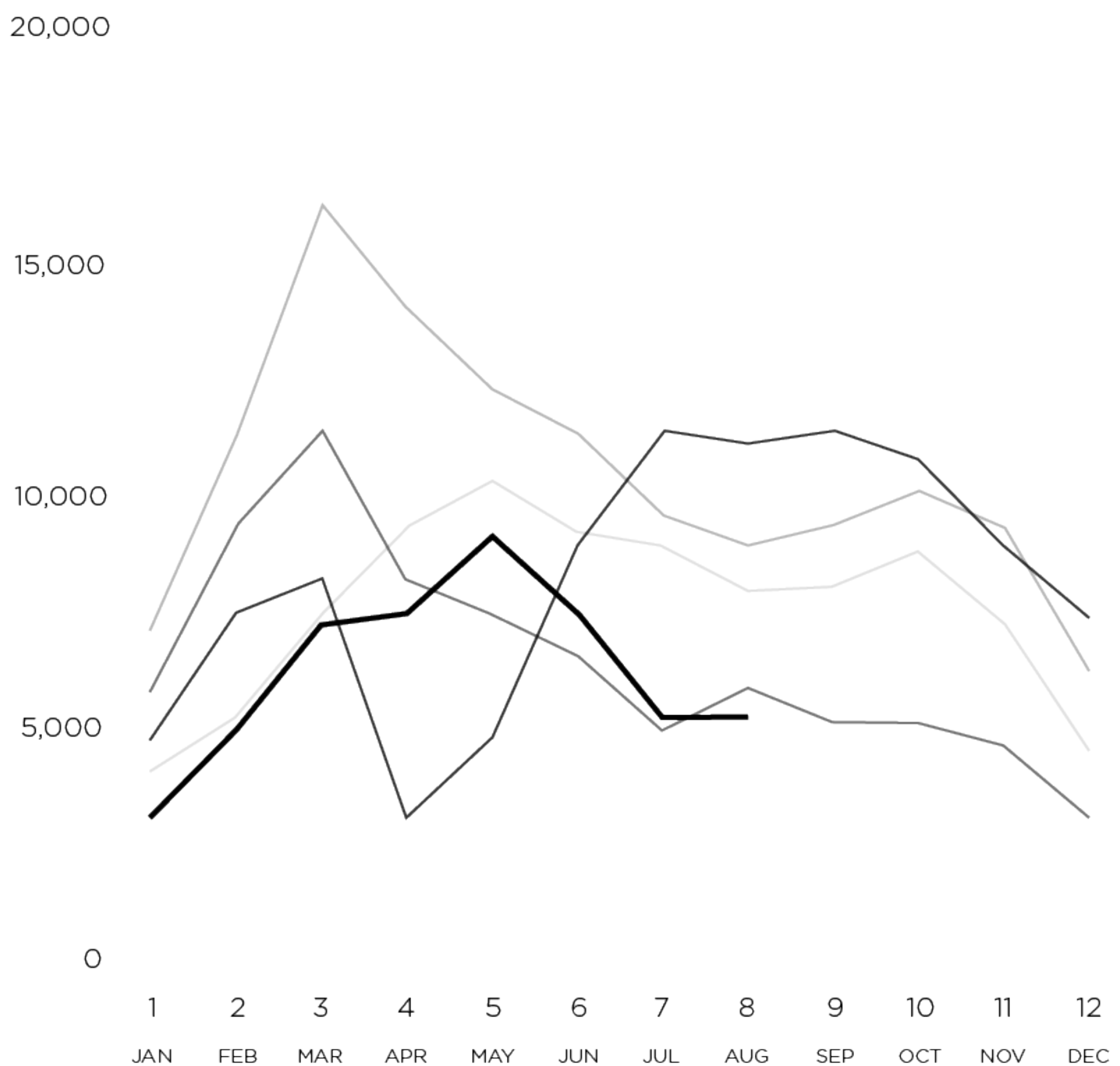
HOME SALES

This year marks the slowest summer market we've seen in the last 5 years, comparably slow to last year, when prices were in freefall.

With sales to new listings ratio in decline, it's not long until we find ourselves with a buyer's market, if we haven't already.

Sales

2023 2022 2021 2020 2019

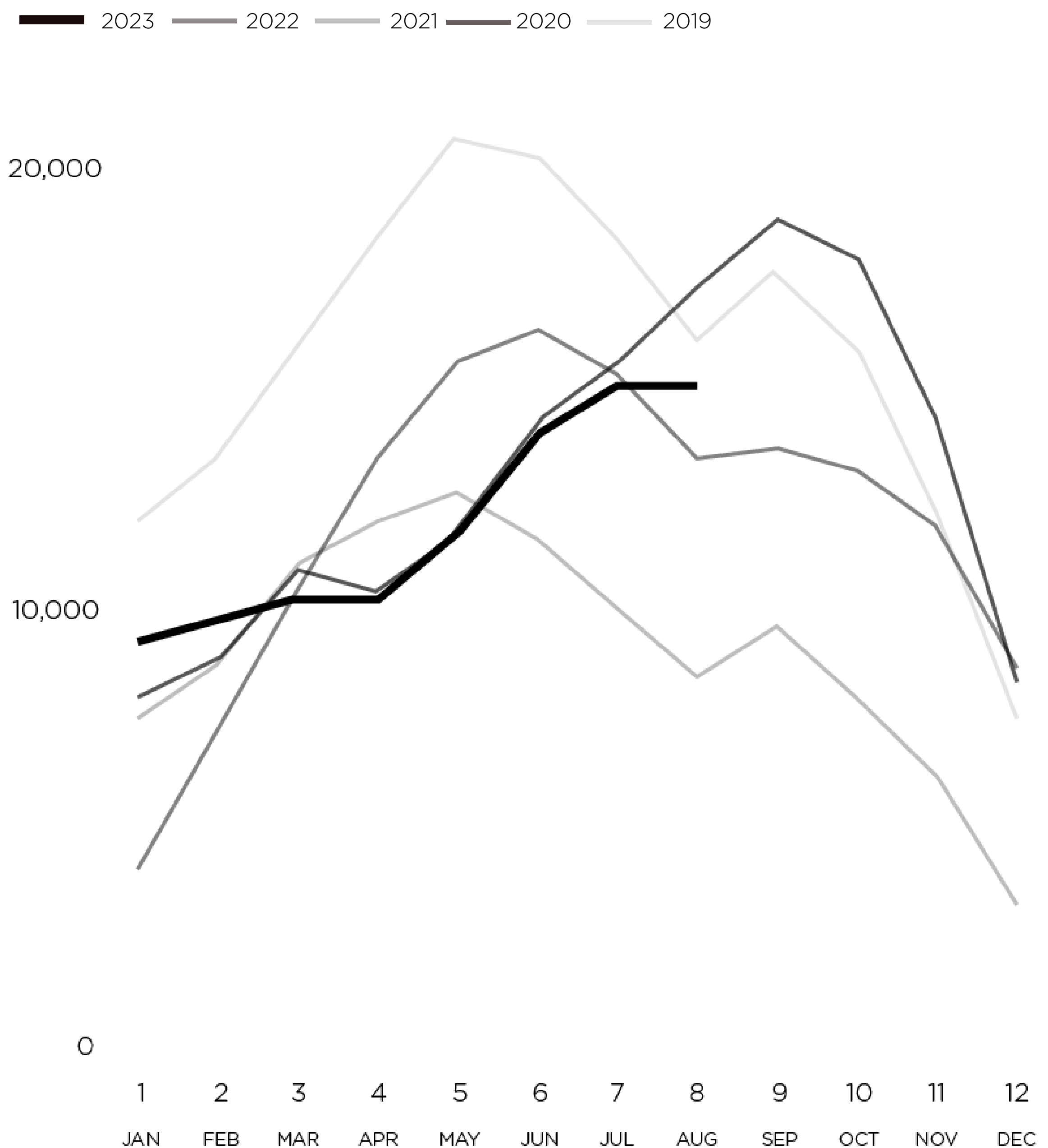


SO LONG SUPPLY SCARCITY

The low-inventory narrative for price support is beginning to erode, as active listings are beginning to pile up. We're currently seeing active listings higher than the same time for the last 2 years.

New listings are the highest they've been in August in the past 5 years excluding 2020, which was an anomaly due to lockdowns.

Sales



UNAFFORDABLE

Analysis from Ben Rabidoux of Edge Realty Analytics shows that mortgage payments continue to climb in Canada.

Despite the market cooling and prices settling, interest rates on both the fixed and variable side have buyers and owners feeling squeezed.

Monthly mortgage payment on typical home

MLS HPI benchmark price, 80% LTV, 30-yr arm, avg 5-yr mortgage rate

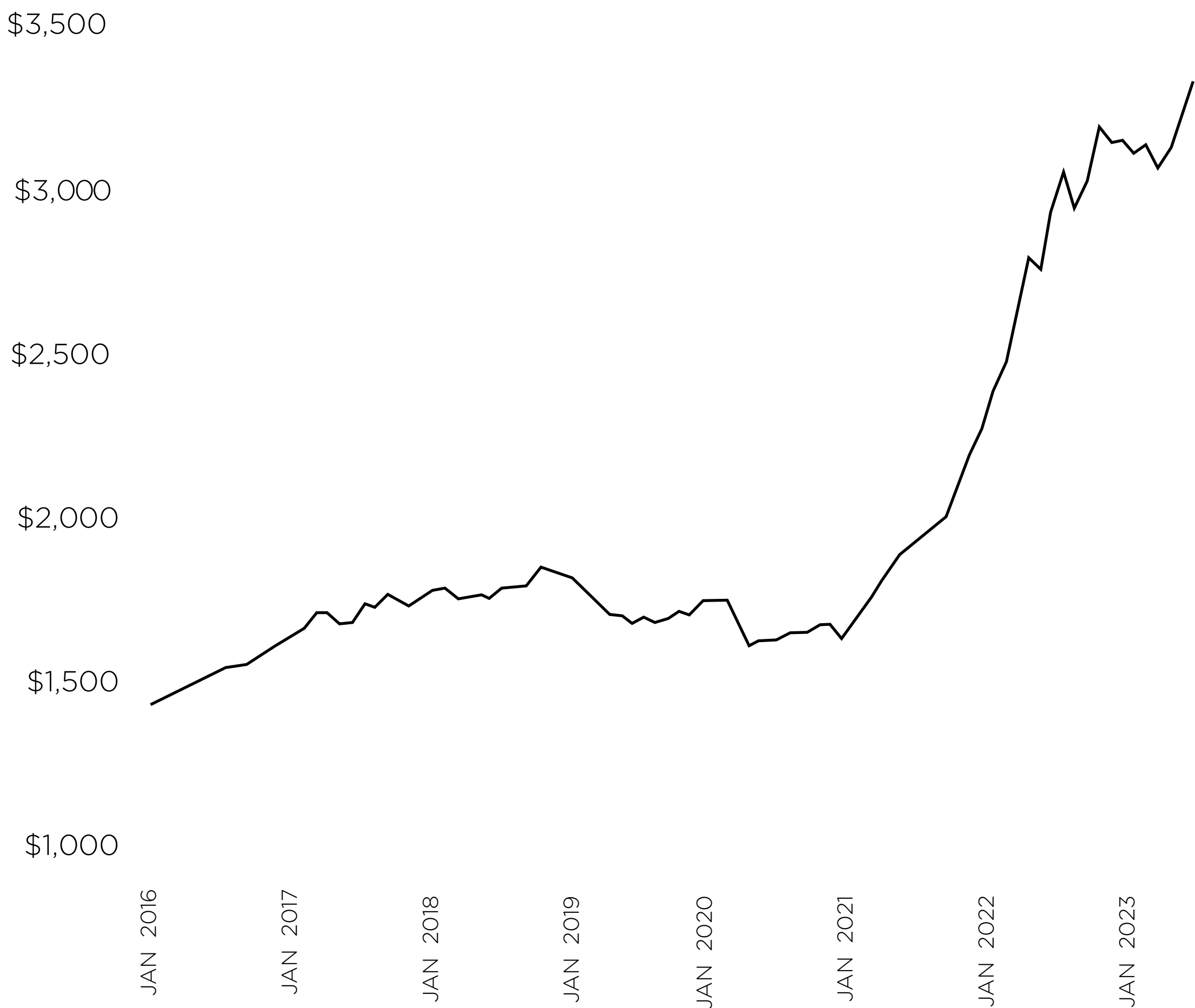


Chart Source: Ben Rabidoux/ Edge Realty Analytics
Source: CREA, MortgageLogic.news, author's calculations

YOU'RE (NOT) RICHER THAN YOU THINK

There's some math that's been floating around that's worth looking at from Dollarwise.ca

The average home in Canada costs \$754,700.

The minimum income required to purchase the average Canadian home is \$180,075

Even the top 10% of earners (estimated average income of \$174 - \$176k) in Canada do not qualify for a mortgage to purchase the average Canadian home.

In the last month alone, the increase in minimum income to qualify for a mortgage has risen by \$3,798 in ON and \$2,854

Full Report: dollarwise.ca/blog/income-to-afford-a-home-in-canada

PROVINCE	AVG HOME PRICE	MORTGAGE AMOUNT	INCOME REQUIRED	CHANGE IN INCOME REQUIRED (VS LAST MONTH)
Ontario	\$922,700	\$738,160	\$216,126	+\$3,798 (+1.8%)
Prince Edward Island	\$358,200	\$286,560	\$94,991	+\$1,352 (+1.4%)
Nova Scotia	\$400,500	\$320,400	\$104,068	+\$708 (+0.7%)
Quebec	\$467,500	\$374,000	\$118,445	+\$687 (+0.6%)
New Brunswick	\$279,500	\$223,600	\$78,103	+\$215 (+0.3%)
Manitoba	\$348,700	\$278,960	\$92,952	+\$880 (+1.0%)
Newfoundland and Labrador	\$280,400	\$224,320	\$78,296	+\$923 (+1.2%)
British Columbia	\$976,600	\$780,800	\$227,564	+\$2,854 (+1.3%)
Saskatchewan	\$329,600	\$263,680	\$88,853	+\$1,137 (+1.3%)
Alberta	\$474,900	\$379,920	\$120,033	+\$1,073 (+0.9%)

A MILLION MORE PEOPLE BUT WHO'S COUNTING?

We likely have a million more people in Canada than we thought.

Yes, you read that right:

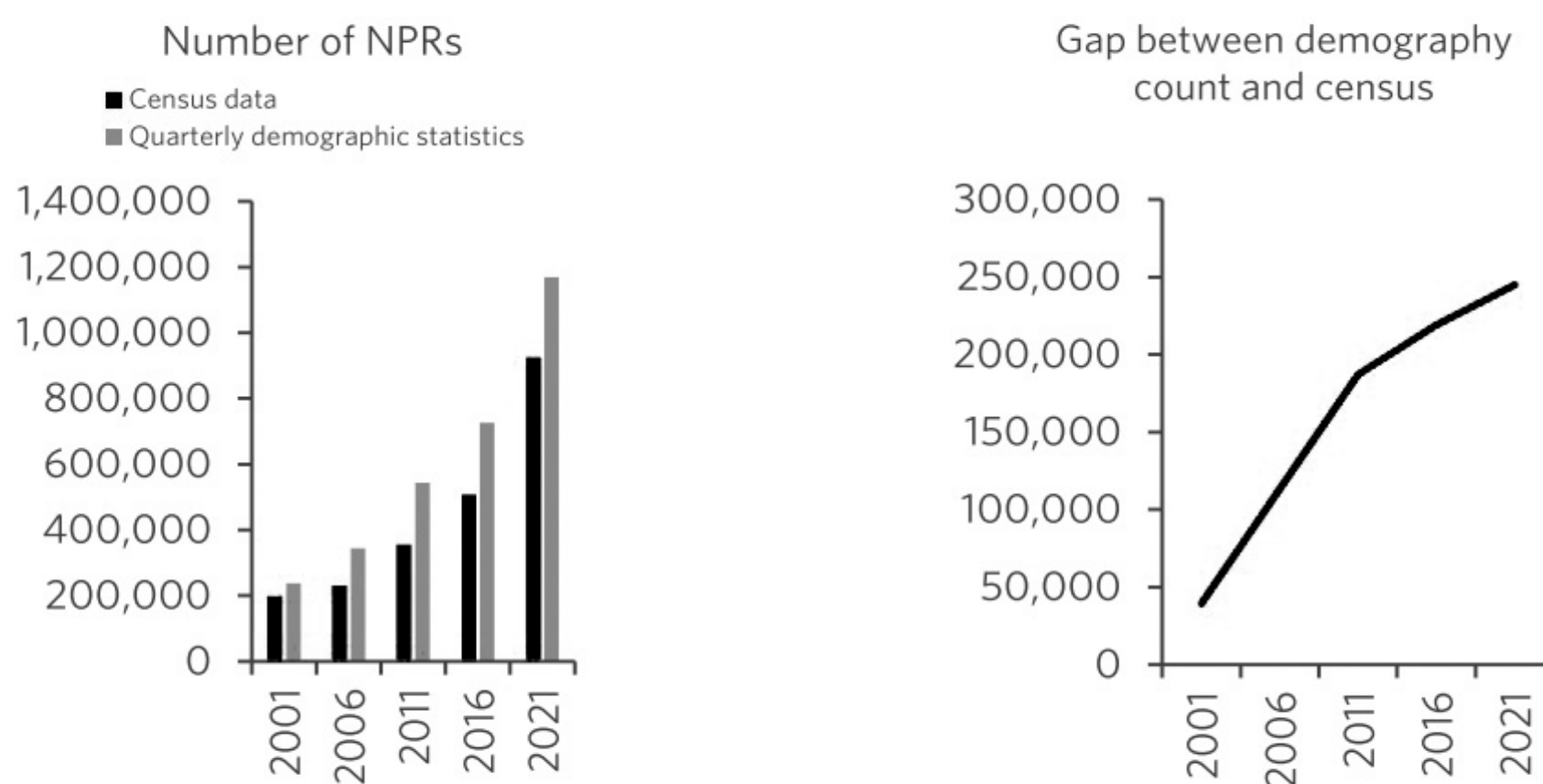
Benjamin Tal of CIBC realized that Statistics Canada likely miscounted those who overstayed visas.

Statistics Canada promptly responded by changing how they count non-permanent residents, according to CBC:in BC.

Article: [cbc.ca/news/politics/statscan-to-revise-non-permanent-resident-numbers-1.6953169](https://www.cbc.ca/news/politics/statscan-to-revise-non-permanent-resident-numbers-1.6953169)

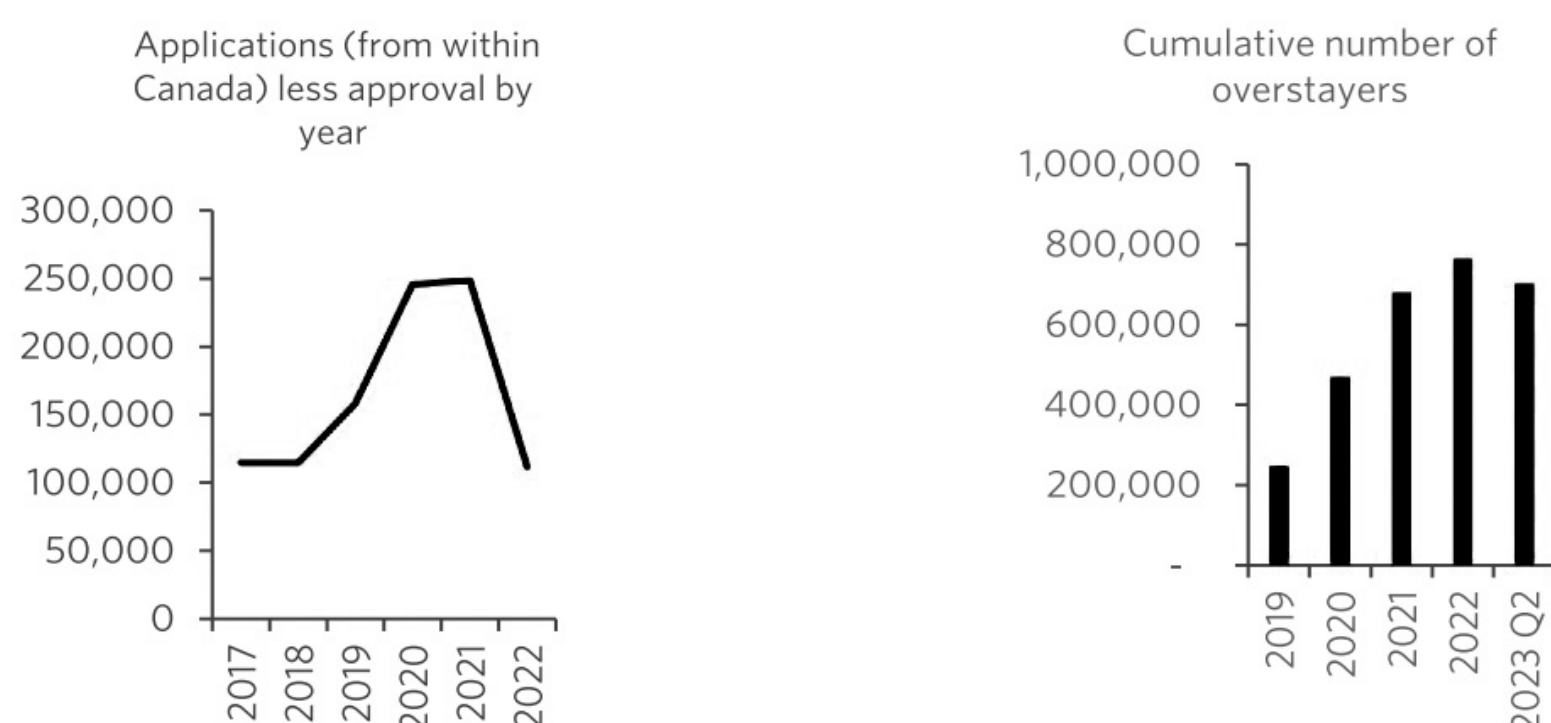
CIBC Report: [economics.cibccm.com/cds?id=858756bd-a8fc-4920-8ea4-e1dcd1c-104d4&flag=E](https://www.economics.cibccm.com/cds?id=858756bd-a8fc-4920-8ea4-e1dcd1c-104d4&flag=E)

Chart 2: NPRs — how many?



Source: Statistics Canada, CIBC

Chart 3: Overstayers



YOU CAN'T BUY WHAT YOU CAN'T AFFORD

Toronto now ranks beside Vancouver in unaffordability based on mortgage payment as a percentage of income.

BMO Economics released an excellent analysis that states “Let’s start with the largest region in the country, Greater Toronto. As of July, mortgage payments would gobble up nearly four-fifths (79%) of family income at current rates. That’s just for the mortgage; you could easily spend another 8% of income on property taxes, heating, condo fees, and other housing costs.”

Full Report: economics.bmo.com/en/publications/detail/d8d9c03e-5790-455a-95e5-c247d74f07ba/

Table 1

Mortgage Payments (% of median family income')

JULY 2023

	2001 Q4	2022 Q3	CONTRACT RATE	QUALIFYING RATE
MORTGAGE RATE (%)	5.9	5.0	5.7	If 7.7
Toronto	29	74	79	94
Vancouver	37	74	78	94
Hamilton	17	51	54	64
St.Catherines-Niagara	16	49	50	59
Halifax	15	30	37	44
Montreal	14	32	33	39
Calgary	16	29	32	39
Saskatoon	12	21	23	27
Quebec City	10	16	18	21

Based on 25-year amortization, 5-year fixed rate with assumption about discount versus posted rate, down payment equal to half of annual income (about 10% today) for a house of HPI benchmark price, Median family income is estimated after 2020 using average annual growth in previous 10 years; Average home price before 2002,2005; Weighted average house price before 2005; Average home price used Sources: BMO Economics (incl.est.) Haver Analytics, BoC, StatCan, CREA

NEVER ENOUGH

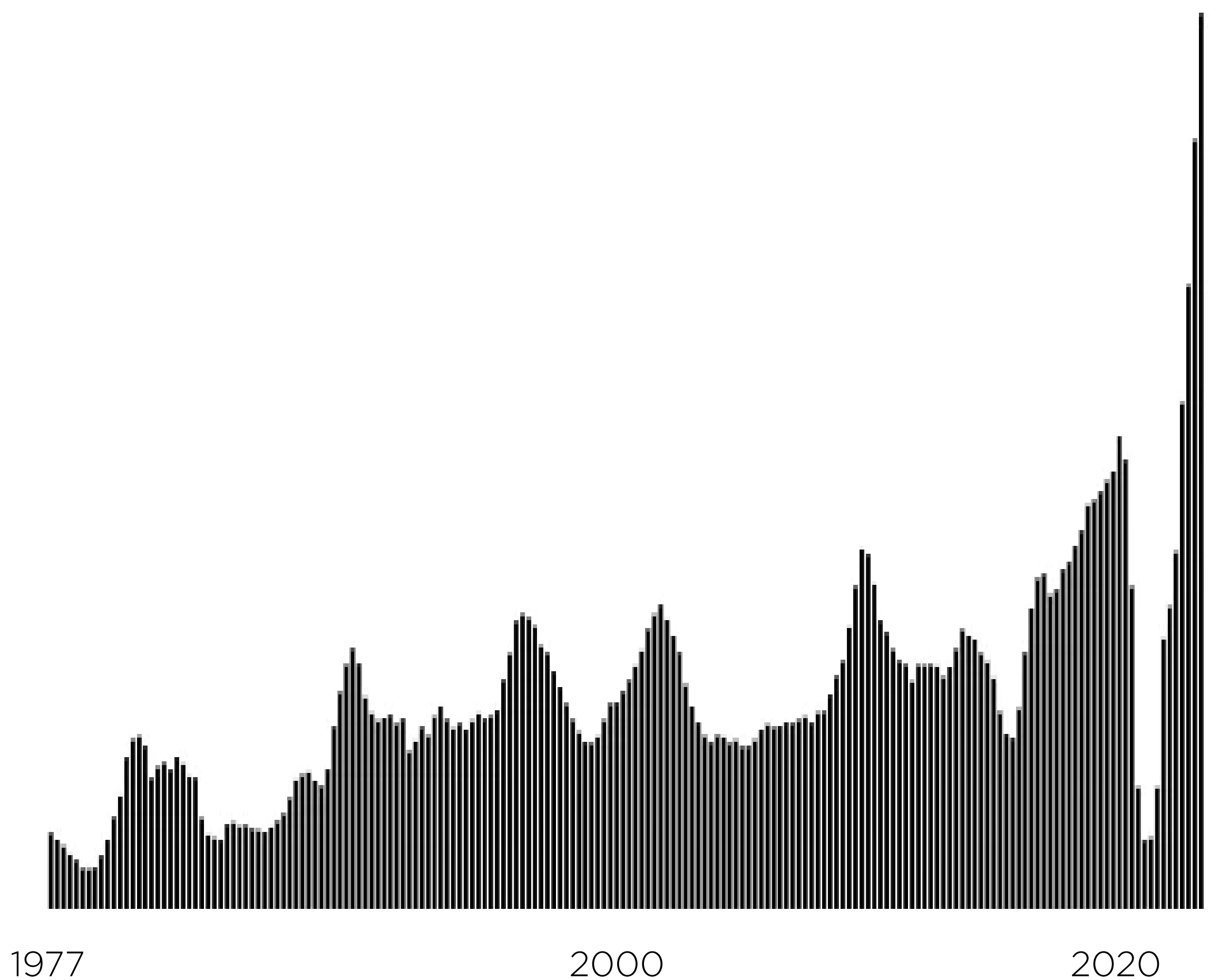
The number of net international migrants per unit of housing construction started continues to climb in Canada, as acknowledged by Bloomberg using CMHC & Statcan data.

With housing starts in decline and population continuing to grow, the existing housing crisis will only get worse the longer this drags on.

Housing Shortgage

Canada's housing starts aren't keeping pace with record immigration

■ Number of net international migrants per unit of housing construction started*



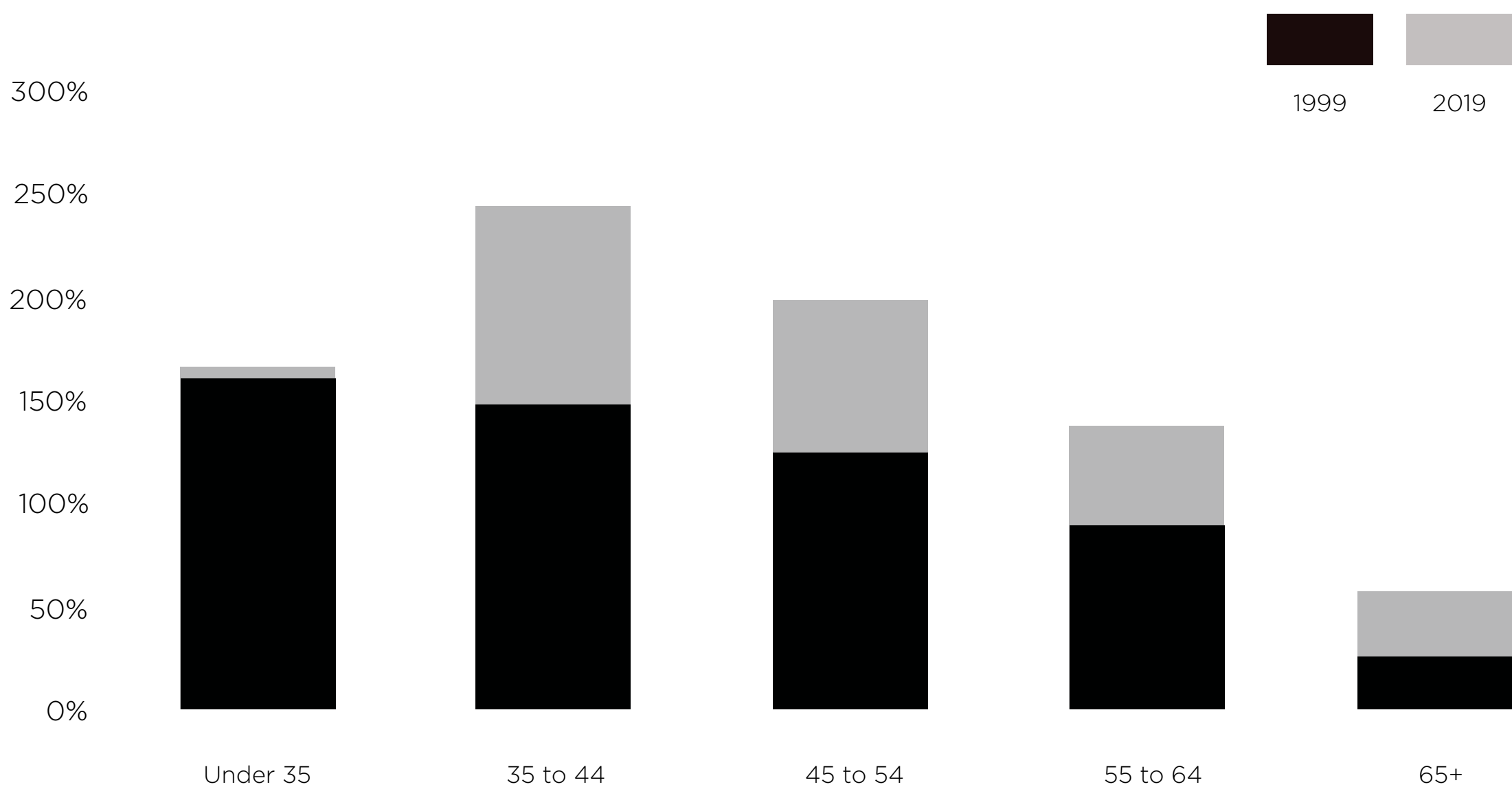
GIVE THE KIDS A CHANCE

RBC recently released a report showing the growth in indebtedness of the 35-44 year old age group.

Housing is almost exclusively to blame for the disparity, as we can see that the under 35 category saw almost no growth in indebtedness. What's the difference? They own less real estate.

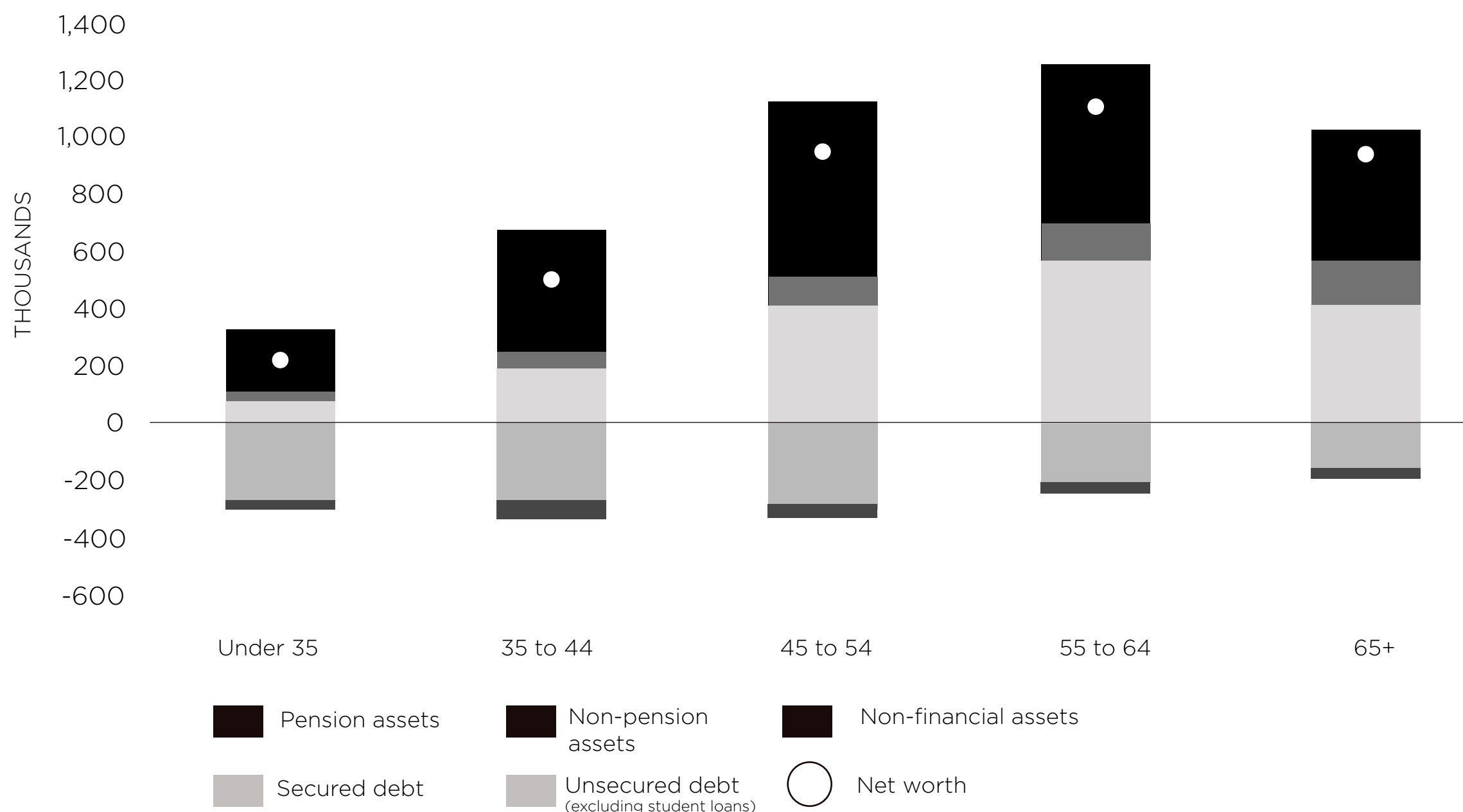
Canadian millennials and Gen Xers are most stretched by debt

Household debt to disposable income ratios by year



Millennials and Gen Xers have fewer assets to offset debt

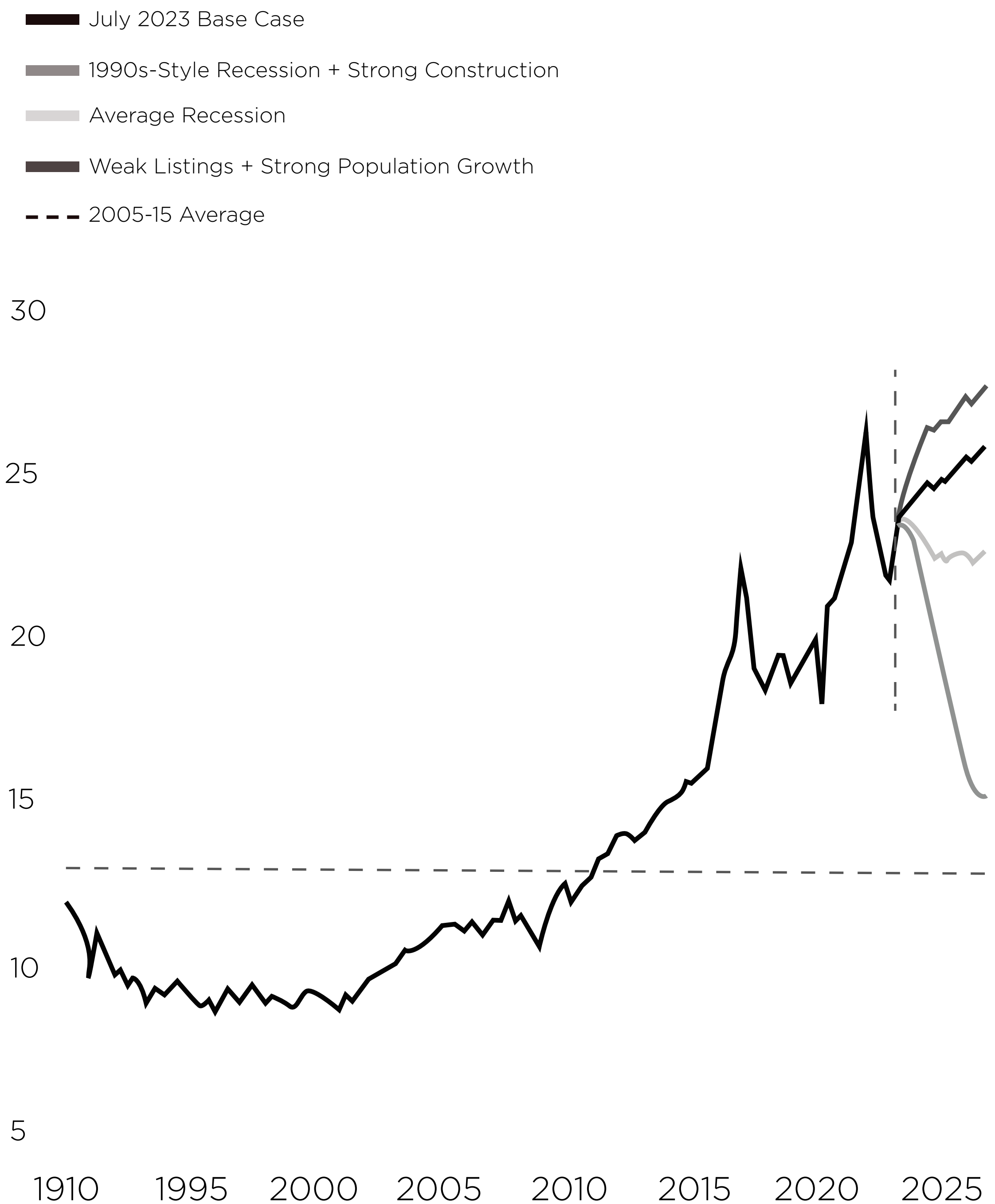
Mean amount of assets and liabilities (among those with debt) by age group of Canadian household reference person, 2019



WORST CASE ONTARIO

Desjardins has stated that even a severe recession may not be able to restore housing affordability in the GTA

Even a Severe Recession in Ontario Might Not Restore Housing Affordability to Historical Norms



Sources: Ontario Ministry of Finance, Canadian Real Estate Association, The Conference board of Canada, and Desjardins Economic Studies

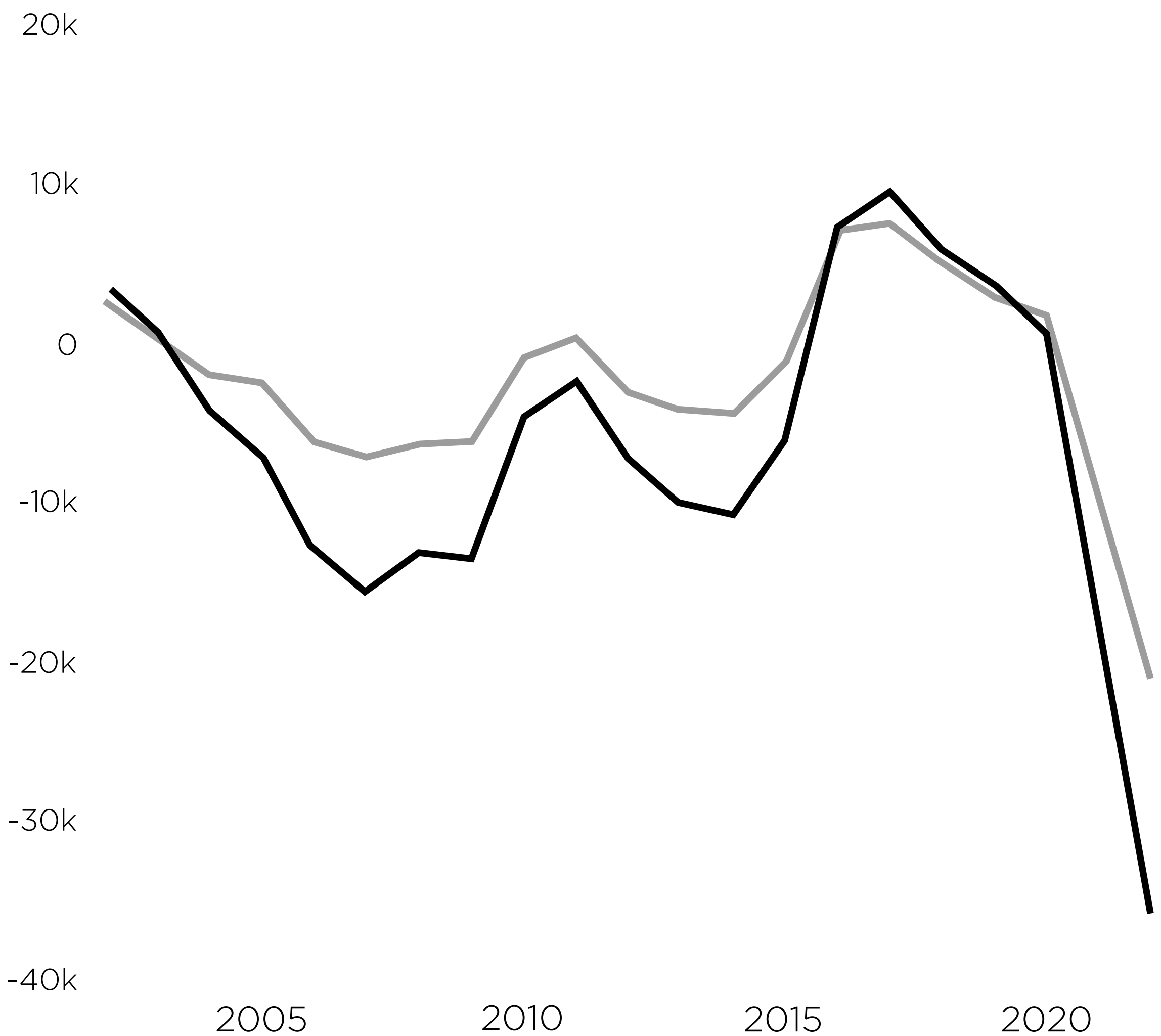
FLY TIL YOU QUALIFY

People are leaving Toronto at a record pace and heading for greener pastures – that is, if the green we’re referring to is from the money they’re saving by chasing more affordable markets like Alberta and Nova Scotia.

People from the Greater Toronto Area are also Pulling Up Stakes

Net-interprovincial migration of Ontario Census Metropolitan Areas (CMAs) and Toronto, annual (at July 1)

- Net-international Migration (all Ontario CMAs)
- Net-international Migration (Toronto)



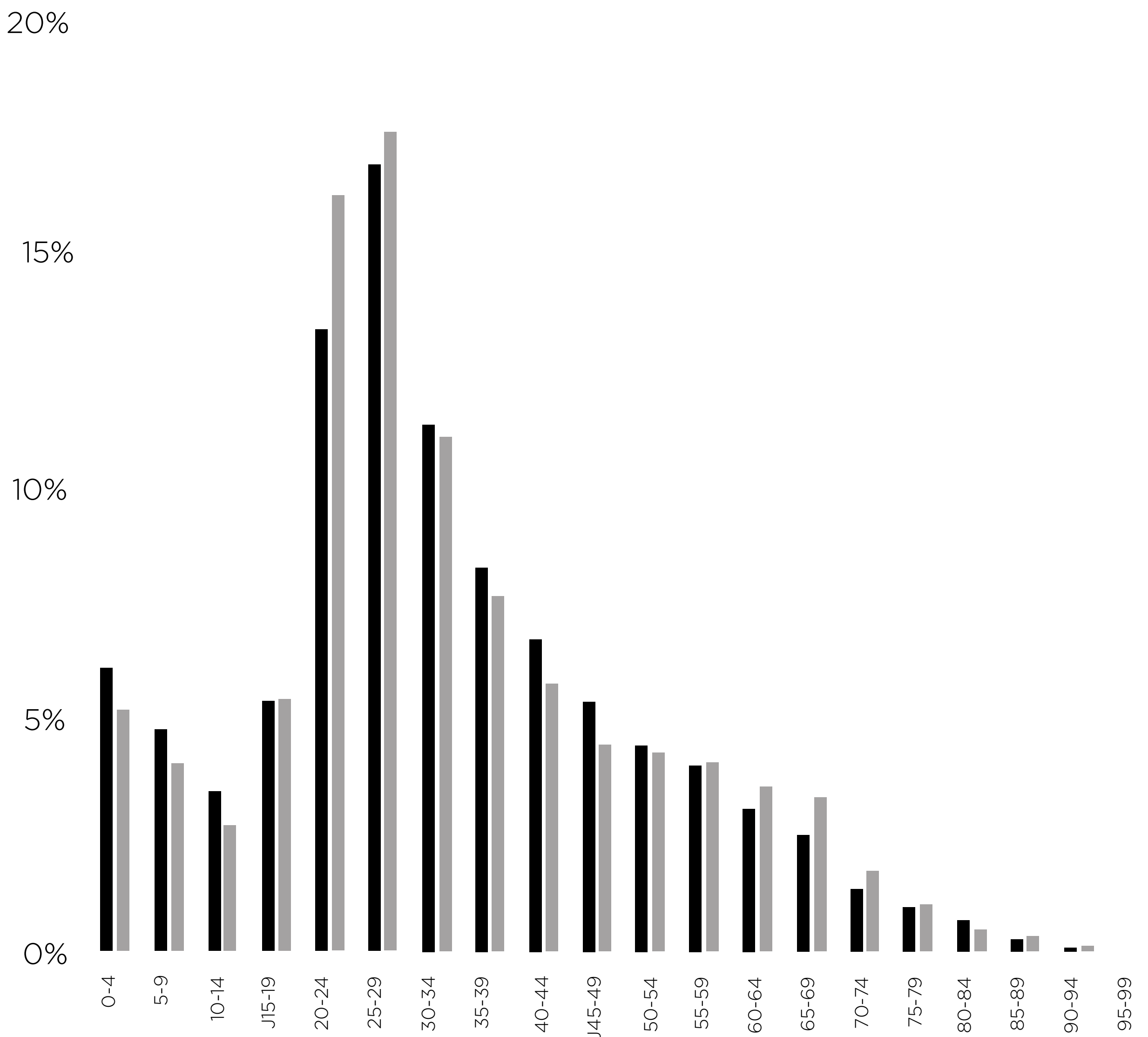
NEW KIDS IN TOWN

It seems the population group leaving Ontario is predominantly younger millennials who simply can't afford to move onto their next phase of life here.

Who's leaving Ontario? Mainly younger adults

Distribution of Ontarian's moving to other provinces by age group, % of total

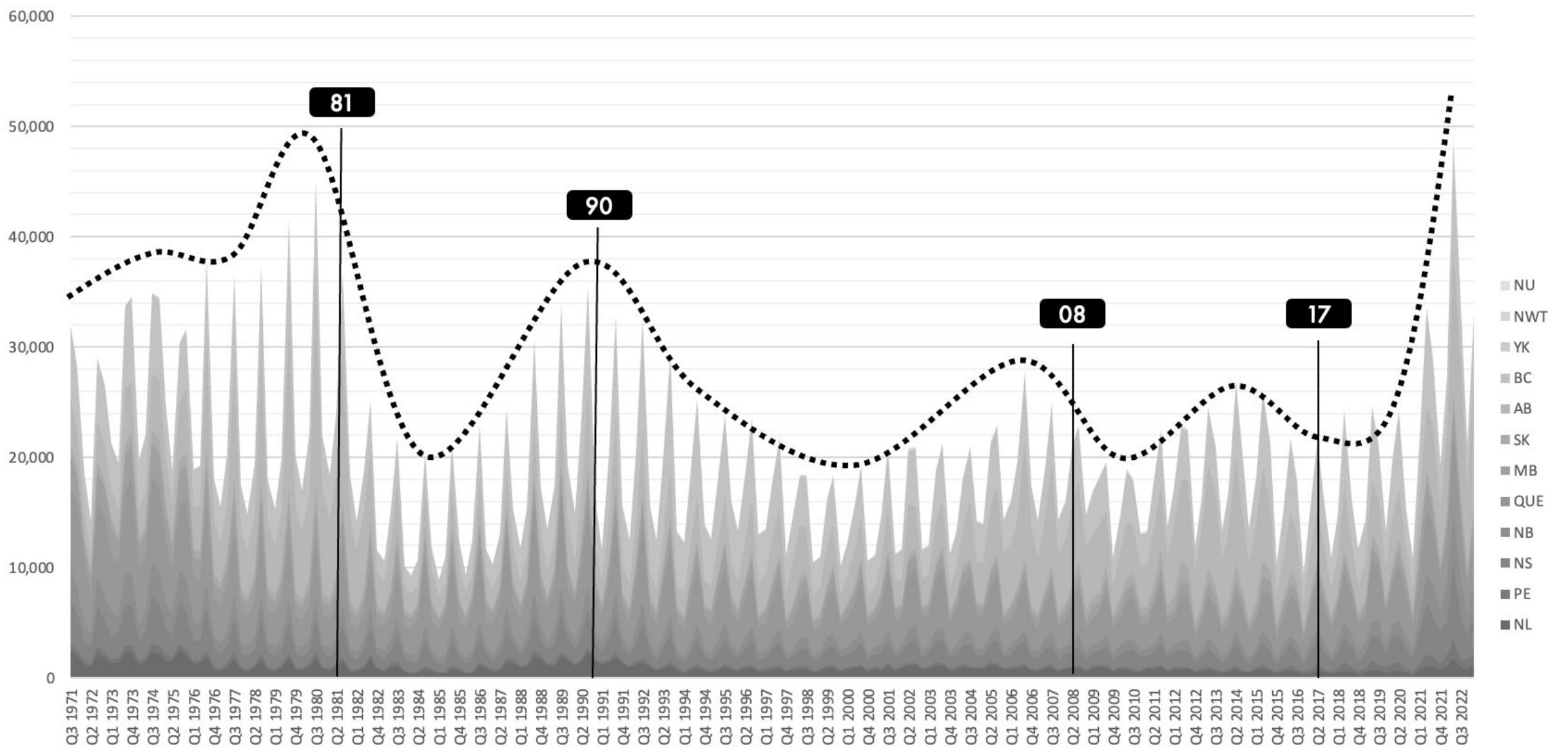
■ 2010-2019 Average
■ 2022



LOOK OUT BELOW

Peaking migration out of Ontario seems strikingly good at preceding housing market declines. This is likely due to the fact that rising unaffordability in Ontario causes outbound migration or the “fly til you qualify” effect.

Quarterly Estimates of Interprovincial Migration out of Ontario, by Destination



NOT THE WORST

According to Bloomberg, Canada has the 4th worst detachment from pre-covid affordability, after US, Germany and New Zealand. In order to return to those levels:

1. House prices would need to drop 33%; or
2. Incomes would need to rise 55%; or
3. Mortgage rates would need to fall 350bps.

Exhibit 32:

Significant adjustments in house prices, mortgage rates and incomes will be required to return affordability back to pre-Covid averages

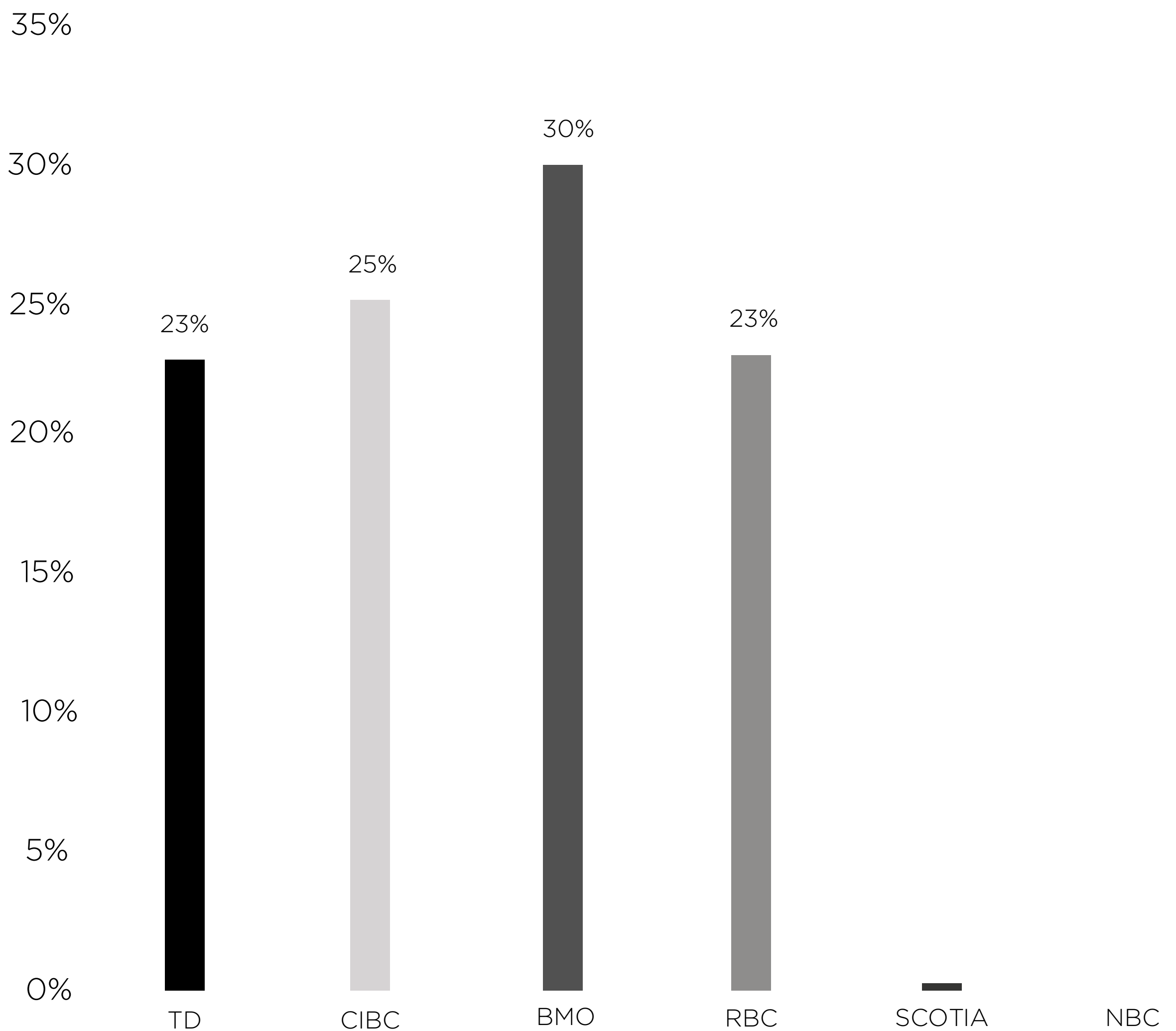
Housing affordability index (% disposable income)				Adjustment required to return to pre-covid avg. affordability		
	Latest	Pre-Covid 10y Avg.	Pre-GFC peak	House Prices (%)	Income (%)	Mortgage rates (ppts)
United States	23	14	26	-41	69	-4.3
Germany	34	21	30	-36	60	-3.4
New Zealand	56	35	56	-35	59	-4.2
Canada	38	25	29	-33	55	-3.5
United Kingdom	31	21	35	-33	50	-3.5
Australia	45	32	44	-25	41	-2.8
Japan	32	25	25	-25	26	-1.7
Sweden	27	20	29	-19	25	-1.7
Korea	39	35	--	-11	22	-1.0

DON'T BANK ON IT

Bank earning season has been interesting – with loan loss provisions ramping up, and too-long-amortizations beginning to get under control.

We're still looking at a lot of loans that are a lot longer than they ought to be – and OSFI's upcoming wave of policy this fall could prove difficult for the reconfiguration of these mortgages.

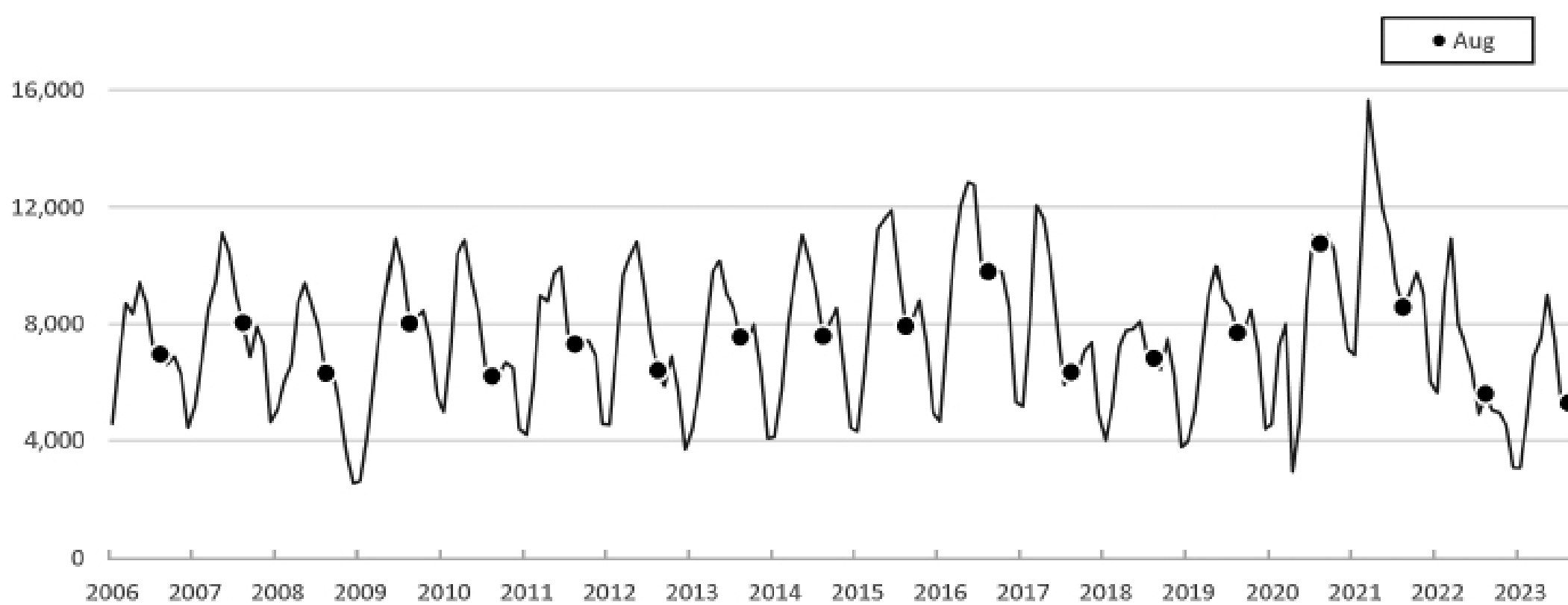
Canadian Banks by % of Mortgage Amortizations Longer Than 35 Years



RECORD LOW SALES

- Sales in August were the lowest since at least 2006 (for the month of August).
- They increased by 1% monthly, declined by 6% yearly, and were 33% below the 10-year average.

Toronto Metro Sales

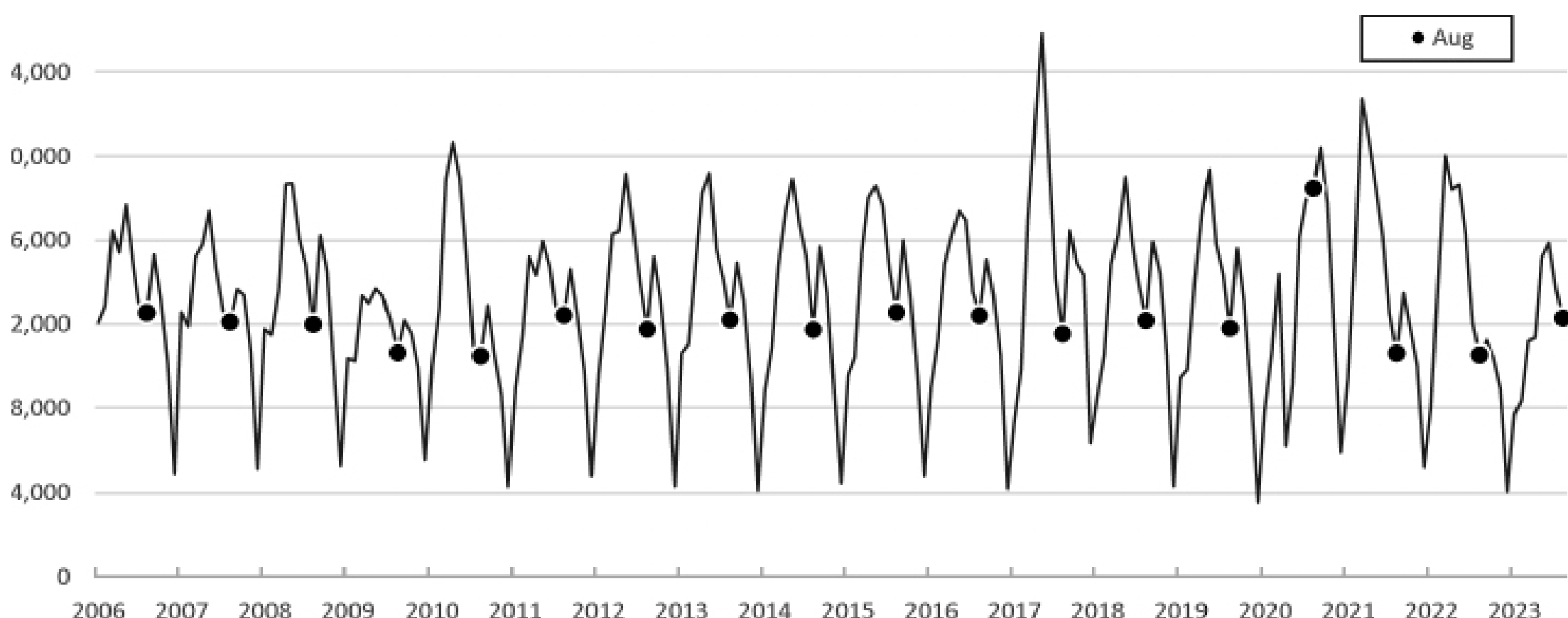


Prepared by @xelan_gta for RARE

NEW LISTINGS ACTIVITY IS TYPICAL

- The number of new listings declined monthly and slightly increased after adjusting for seasonality.
- They declined by 10% monthly, increased by 17% yearly, and were 1% below the 10-year average.

Toronto Metro New Listings

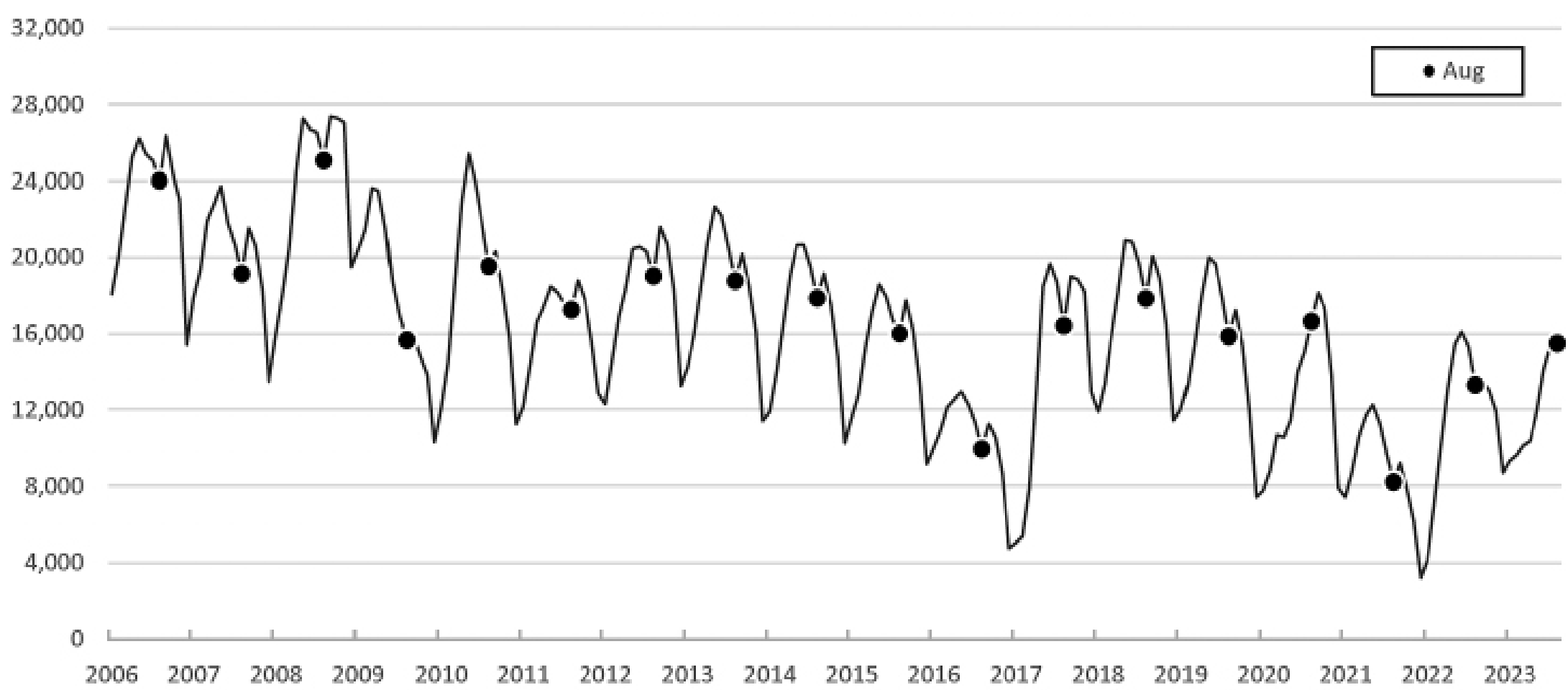


Prepared by @xelan_gta for RARE

ACTIVE INVENTORY INCREASED WHEN IT SHOULD NORMALLY DECLINE

- Active inventory grew by 1% monthly, 16% yearly, and was 3% above the 10-year average.
- On a seasonally adjusted basis, it continued to increase for the fourth month in a row.

Toronto Metro Active Listings

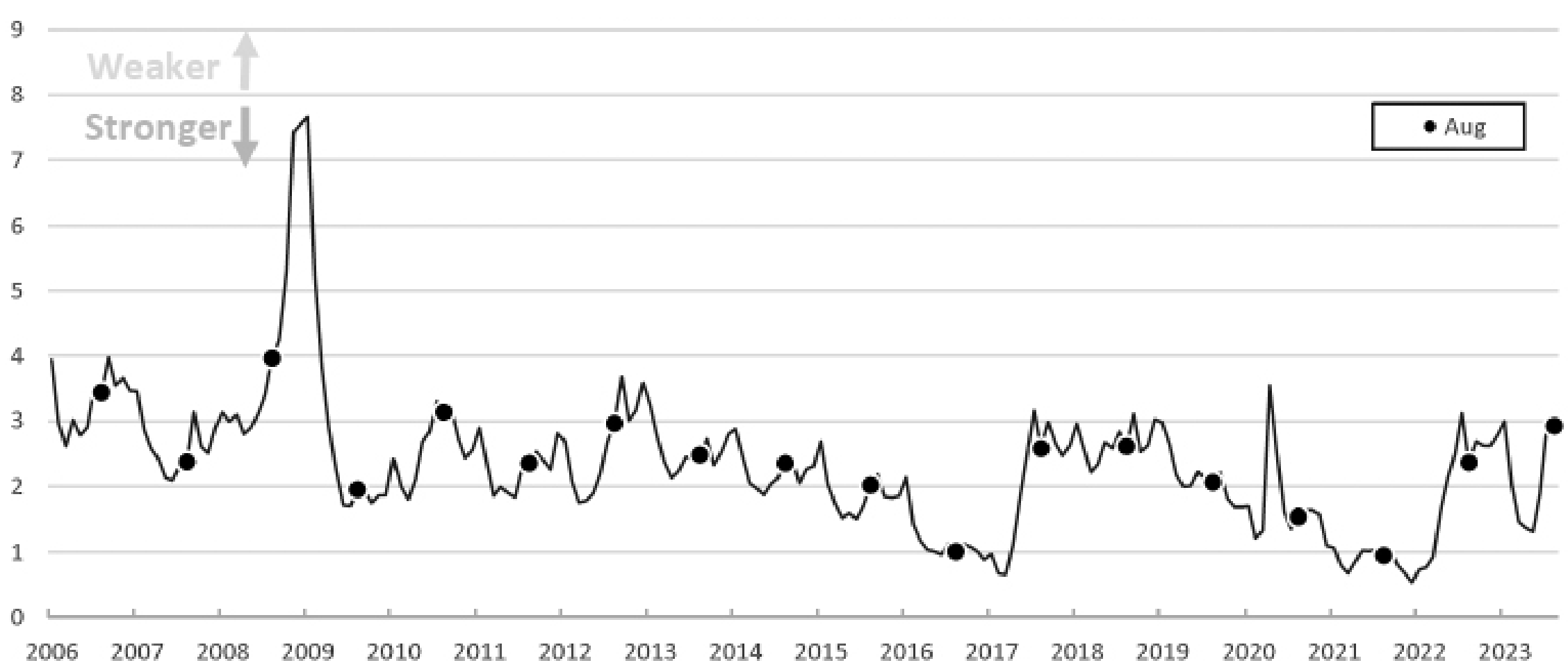


Prepared by @xelan_gta for RARE

MARKET BALANCE IS HISTORICALLY WEAK

- The market balance indicator, Months of Inventory, remained the weakest since 2012, unchanged since July.
- Based on the current reading, historically prices have grown at a rate of 4% per year.
- The condo sector showed slightly better resilience in August.

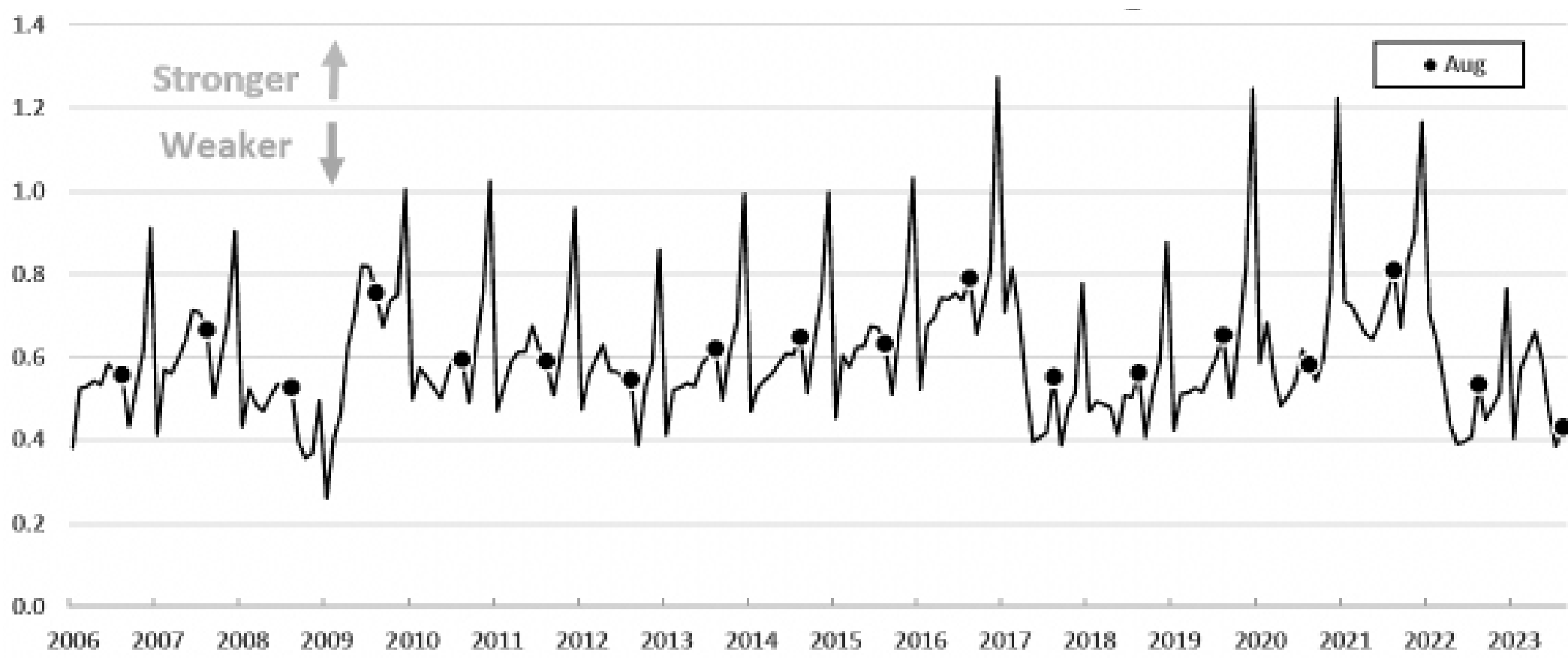
Toronto Metro Months of Inventory



Prepared by @xelan_gta for RARE

- The most recent value of another market balance indicator, Sales-to-New Listings, is weaker compared to the Months of Inventory.
- It is the lowest since at least 2006 (for the month of August).
- Based on the current reading, historically prices have declined at a rate of 8% per year.

Toronto Metro Sales-to-New Listings

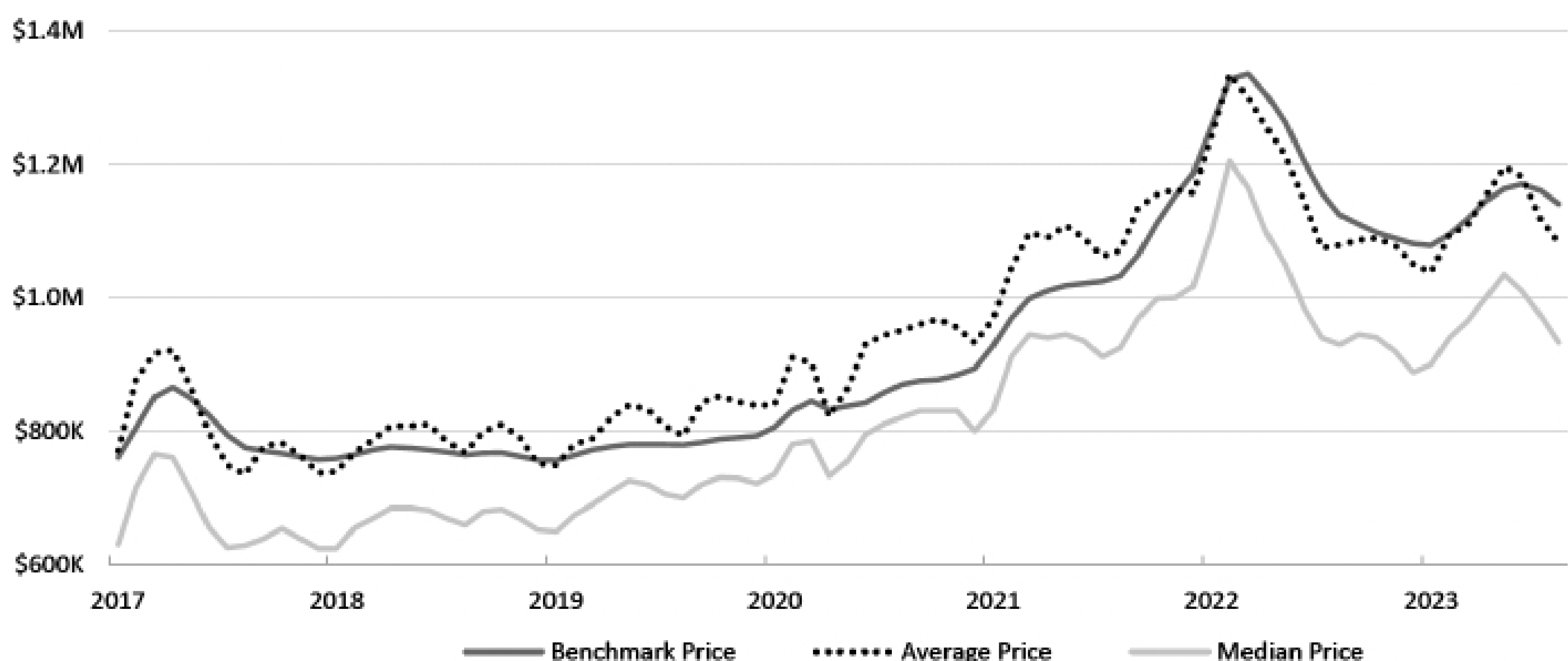


Prepared by @xelan_gta for RARE

WEAK MARKET IS PULLING DOWN

- All price metrics continued to decline in August supported by a weak market balance.
- Benchmark Price declined by 1.7% monthly, average price by 3.2% and median price by 4.2%.
- They are largely unchanged compared to the previous year and 15-23% below the 2022 peak values

Toronto Metro Real Estate Prices

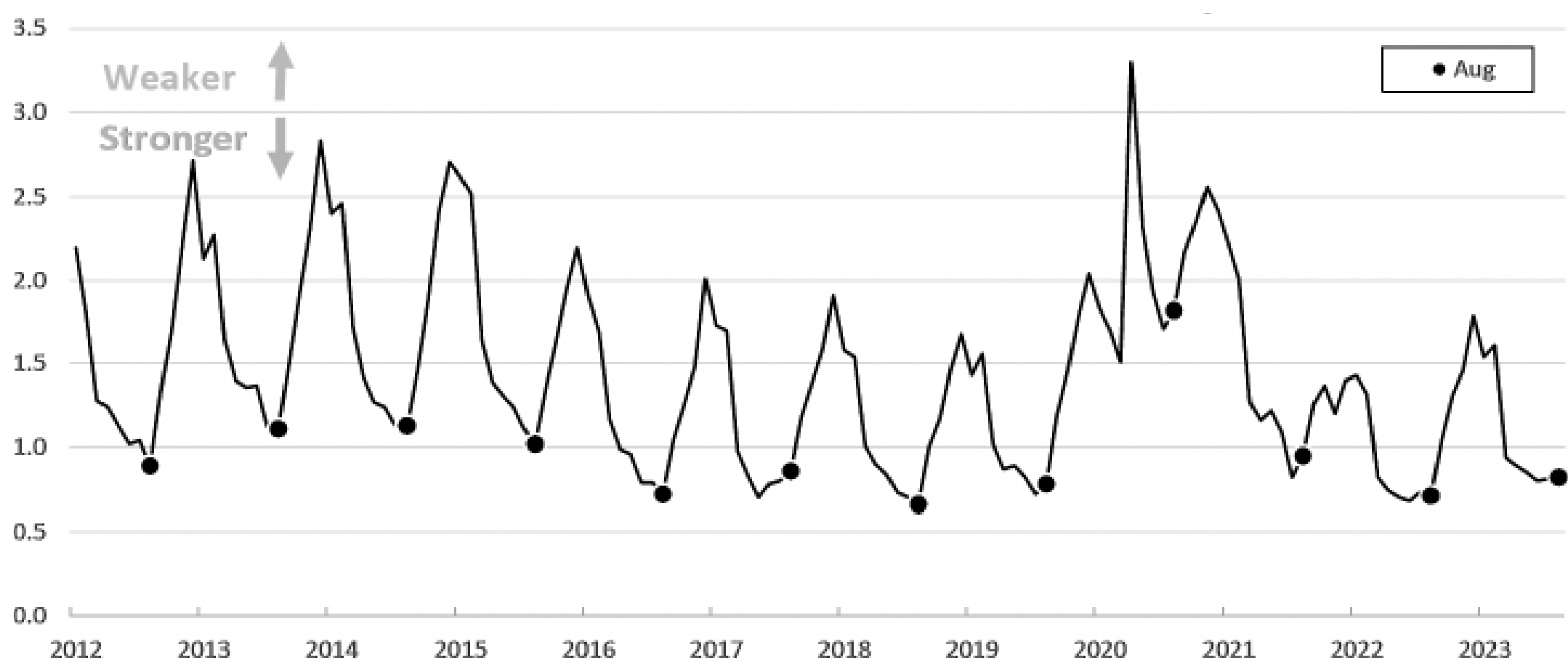


Prepared by @xelan_gta for RARE

RENTAL MARKET BALANCE IS GRADUALLY WEAKENING

- The rental market is tight but not as tight as last year. It continued to gradually weaken in August.
- Based on the current Months of Inventory reading, historically rents have grown at a rate of about 7% per yr.
- It has passed a seasonal peak and is expected to weaken further towards the end of the year.

Toronto Metro Rental Months of Inventory

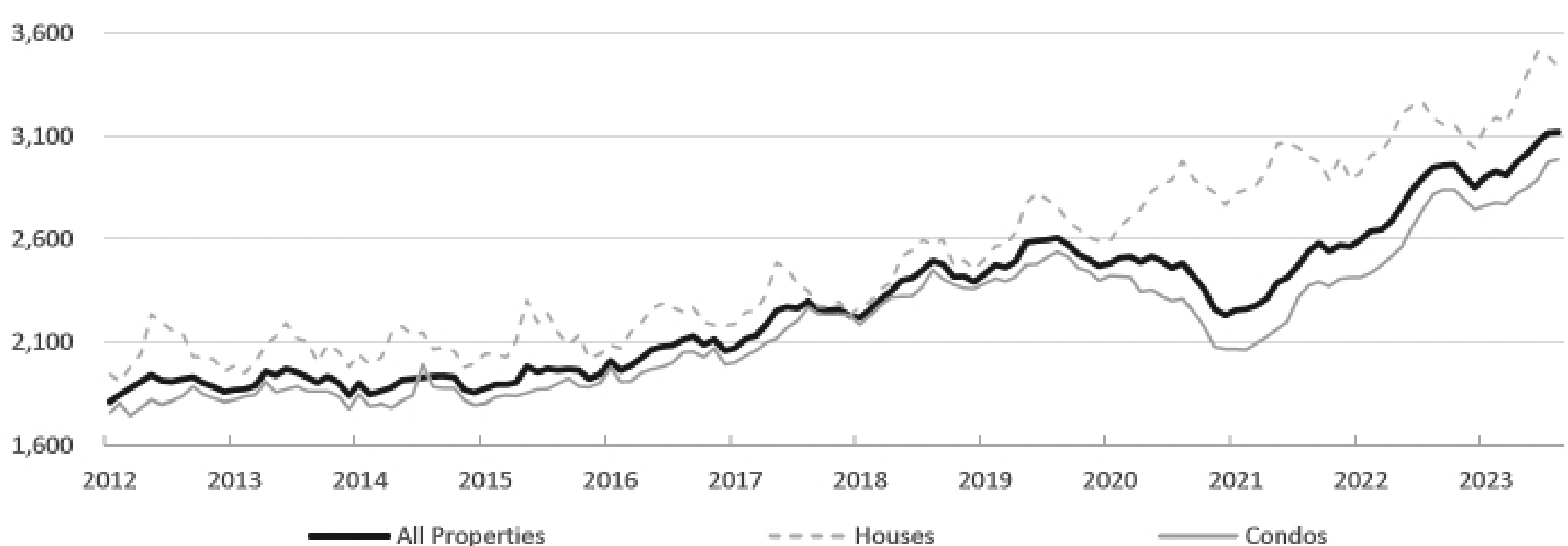


Prepared by @xelan_gta for RARE

RENTS ARE AT THEIR SEASONAL PEAK

- The average Toronto Metro rent price of \$3,118 was record-high in August and remained largely unchanged.
- It grew by 0.2% compared to the last month and 5.8% year over year.
- Seasonal decline in single-family rents should provide downward pressure for the remainder of the year.

Toronto Metro Average Rent Price

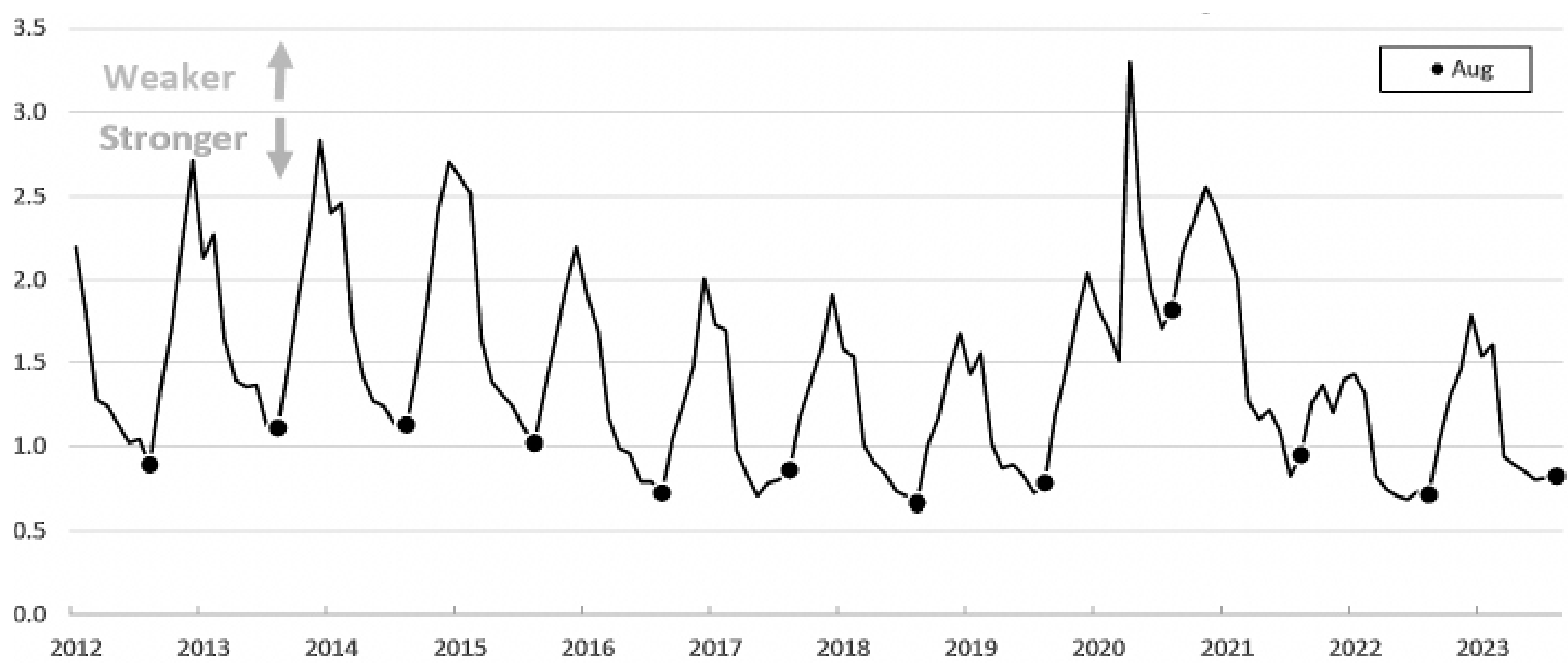


Prepared by @xelan_gta for RARE

NEW CONSTRUCTION SALES DECLINED FURTHER

- New construction sales declined by 53% in July compared to the previous month.
- They were 50% below the 7-year average with year-to-day sales historically down 45%

Toronto Metro New Construction Sales

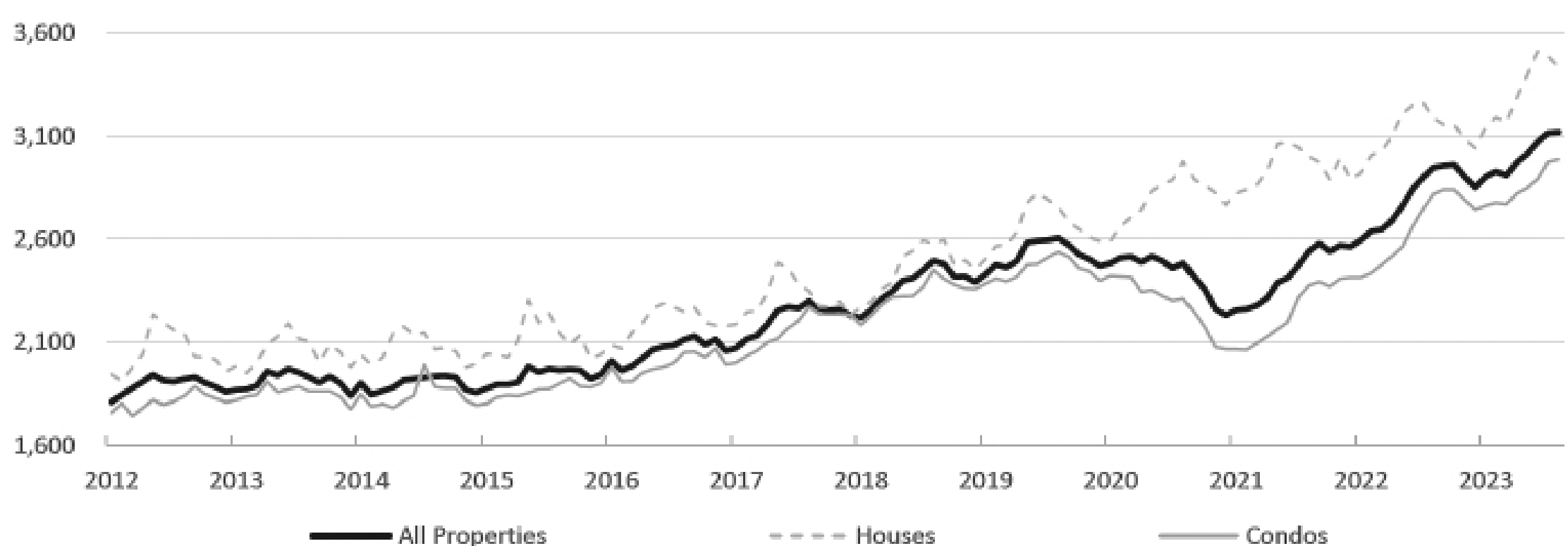


Prepared by @xelan_gta for RARE

RENTS ARE AT THEIR SEASONAL PEAK

- The average Toronto Metro rent price of \$3,118 was record-high in August and remained largely unchanged.
- It grew by 0.2% compared to the last month and 5.8% year over year.
- Seasonal decline in single-family rents should provide downward pressure for the remainder of the year.

Toronto Metro Average Rent Price

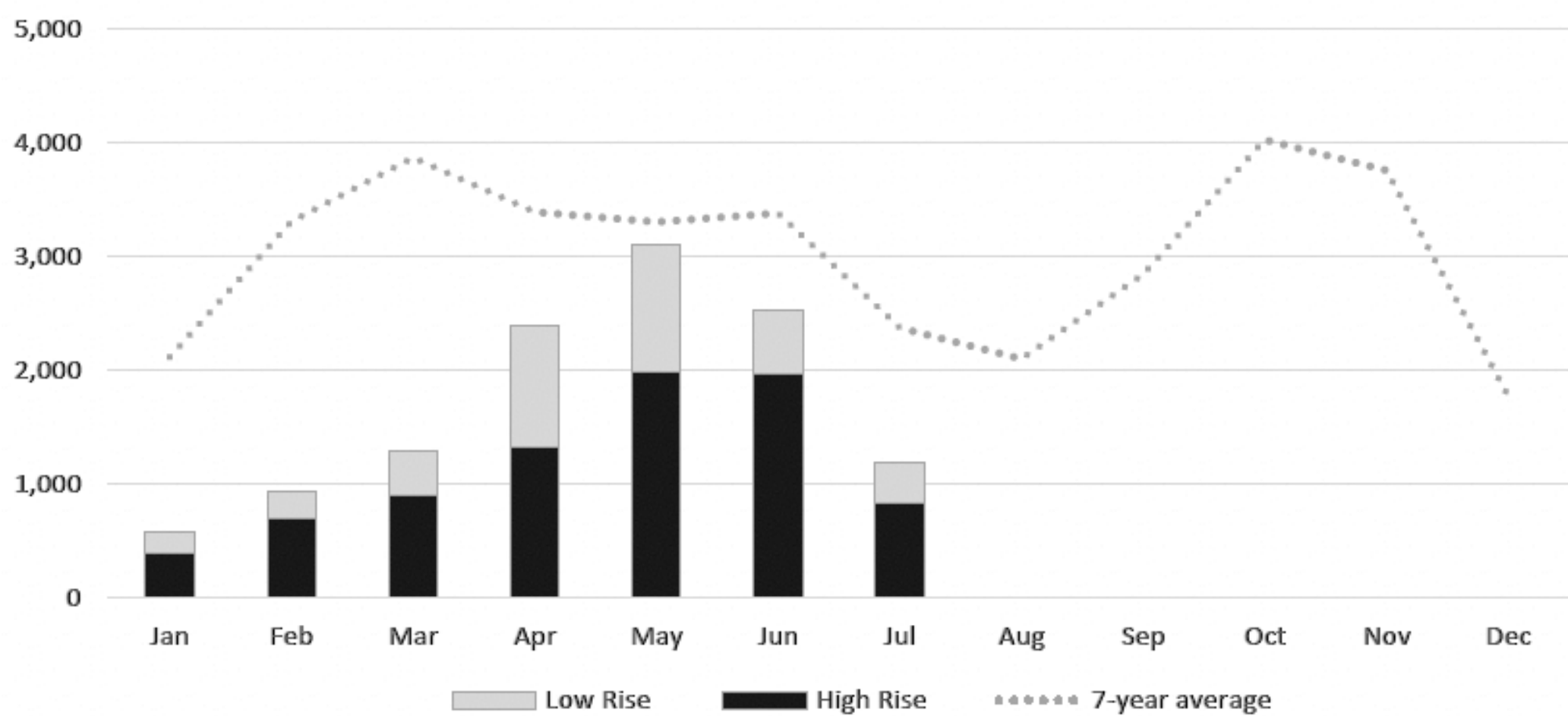


Prepared by @xelan_gta for RARE

NEW CONSTRUCTION SALES DECLINED FURTHER

- New construction sales declined by 53% in July compared to the previous month.
- They were 50% below the 7-year average with year-to-day sales historically down 45%

Toronto Metro New Construction Sales

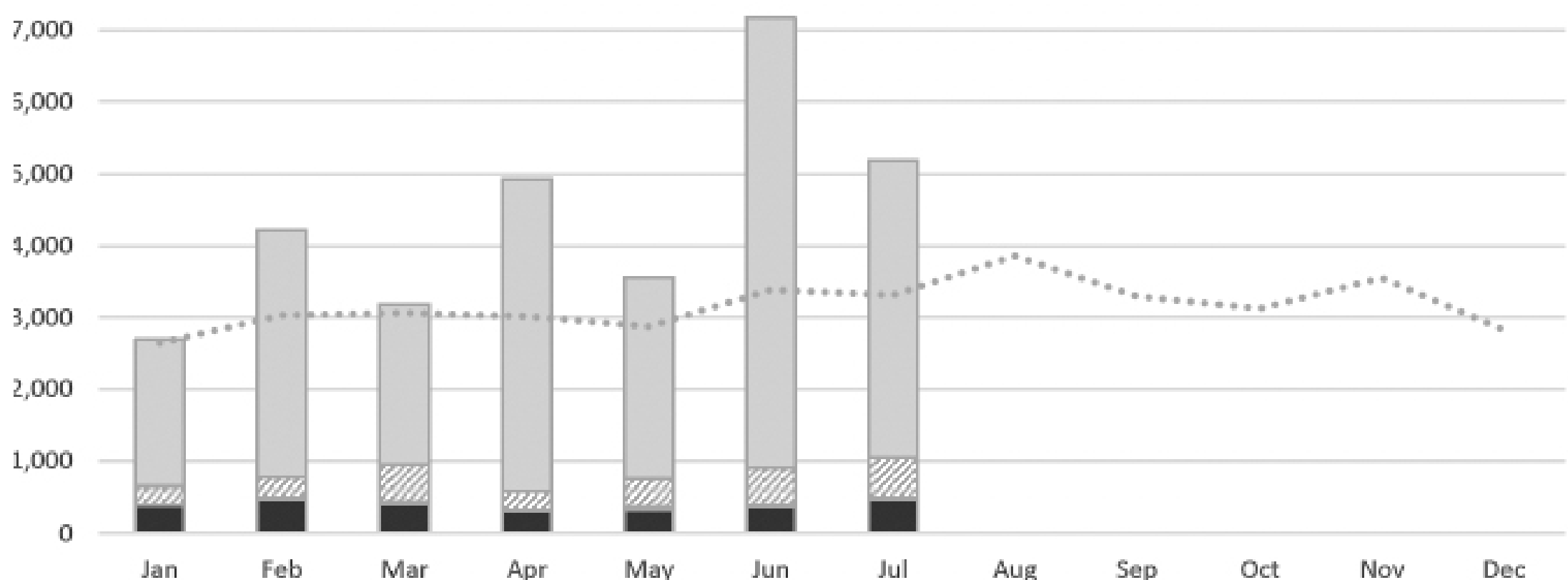


Prepared by @xelan_gta for RARE

HOUSING STARTS SET NEW RECORD

- Housing starts were 57% above the 10-year average in July with year-to-date starts historically up 45%.
- Over 53,000 units were started in the last twelve months, the highest level since at least 1973.
- This is linked to strong pre-construction sales in 2021-2022 and an increase in rental construction.

Toronto Metro Housing Starts

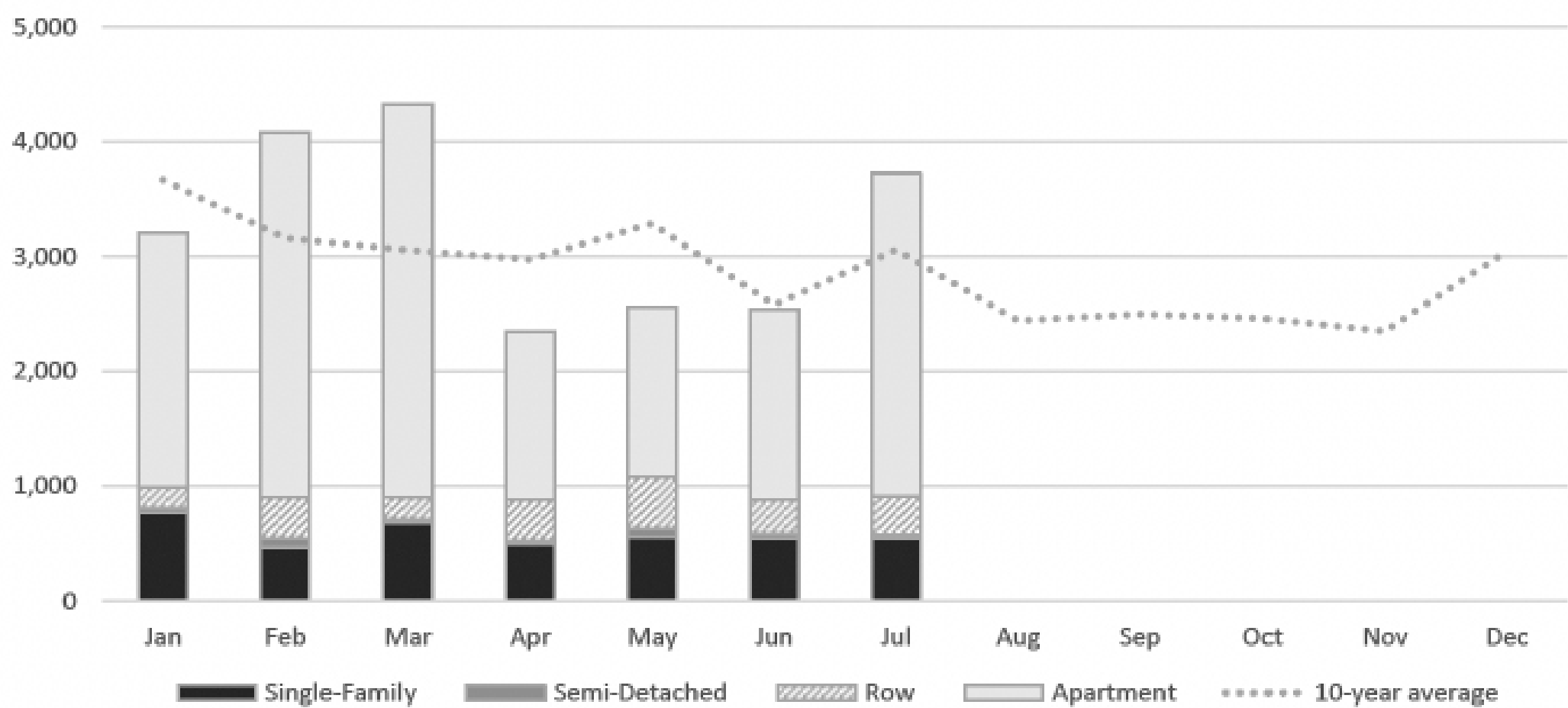


Prepared by @xelan_gta for RARE

HOUSING COMPLETIONS INCREASED

- Housing completions in July were 22% above the 10-year average with year-to-day number historically up 4%.
- Almost 34,000 units were completed in the last 12 months, consistent with the historical norm.

Toronto Metro Housing Completions

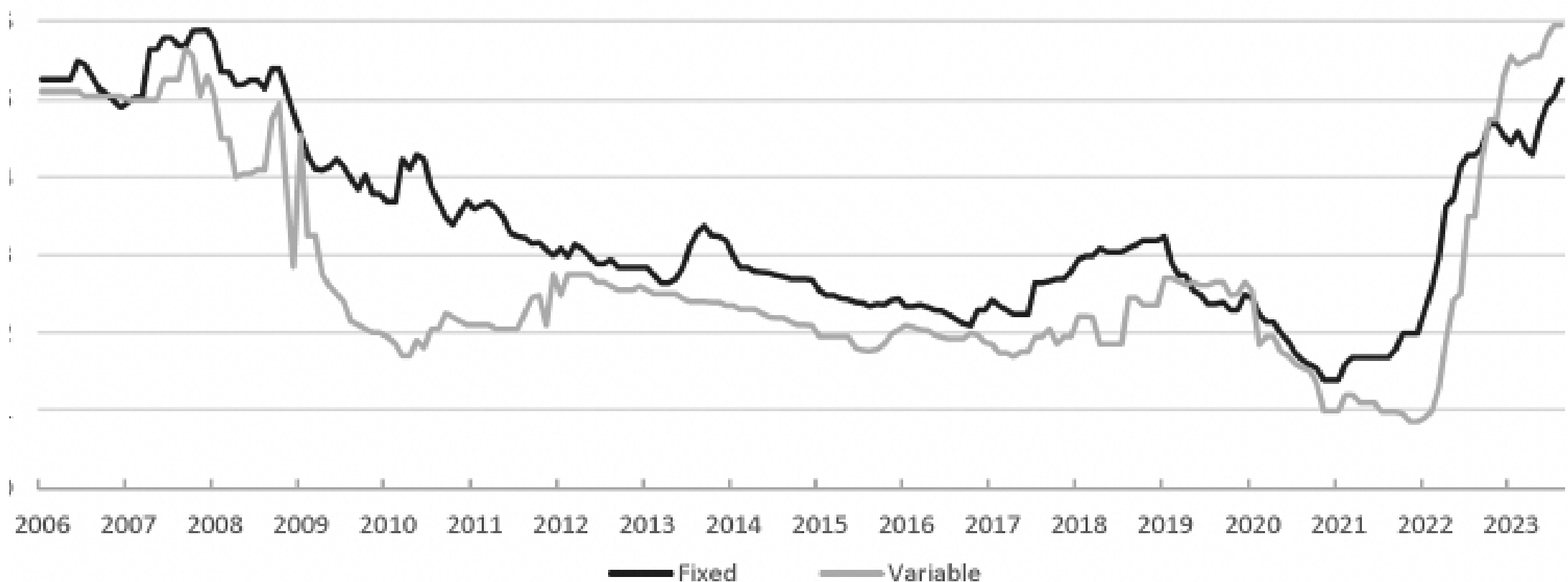


Prepared by @xelan_gta for RARE

MORTGAGE RATES REMAIN HIGH

- Discounted fixed mortgage rates have risen to 5.24% in August, the highest since 2008.
- Discounted variable mortgage rates remained unchanged at a record-high level of 5.95% since at least 2006.

Lowest Discounted 5-year Mortgage Rates in Canada (%)



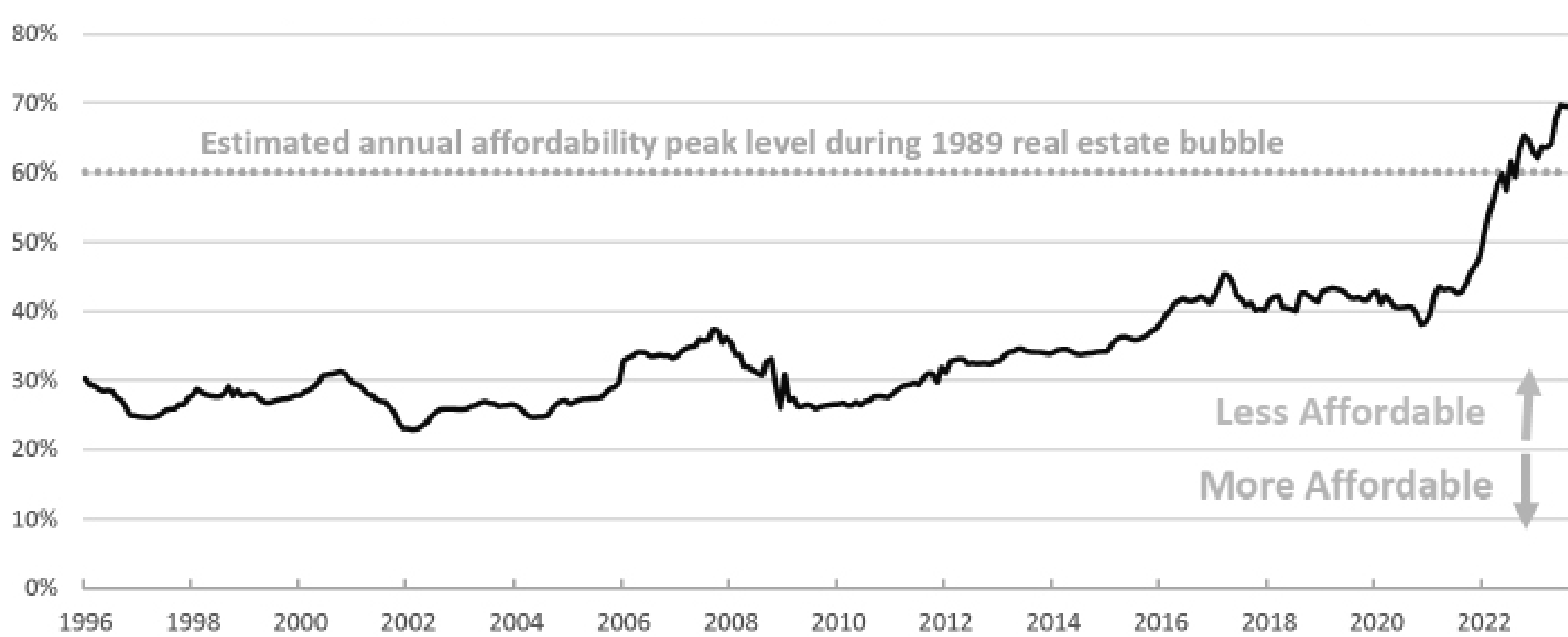
Prepared by @xelan_gta for RARE

HOUSING AFFORDABILITY IS UNCHANGED

- Rising mortgage rates offset declining prices, resulting in housing affordability remaining unchanged in August.
- It now requires 69% of typical household income to cover mortgage payments for a typical newly purchased property in the Toronto Metro which is nearly the worst

Toronto Metro Housing Affordability

(Mortgage payments on a typical property % of median household income)



Prepared by @xelan_gta for RARE

UNEMPLOYMENT RATE INCREASED

- Canada's unemployment rate in July increased by 0.1% from 5.4% to 5.5%.
- In Toronto Metro, it grew by 0.2% from 6.3% to 6.5% and remained above the recent cycle low of 5.5%

Toronto Metro Unemployment Rate (%)



Prepared by @xelan_gta for RARE

THE TAKEAWAY

AUGUST

The Toronto Metro real estate market displayed signs of stabilization in August, with an uptick in homebuying activity (compared to the 10-year average) offsetting the rise in active inventory. Consequently, market balance indicators remained largely unchanged.

It's important to highlight that this stabilization is occurring in the Buyer's Market zone with the market balance remaining historically weak. The Month of Inventory suggests that the prices should be growing at an annual rate of approximately 4%. However, the Sales-to-New Listings ratio is the weakest since at least 2006, pointing to an 8% annual price decline.

In August, all price metrics experienced a decline, and although some seasonal improvement is expected in September, underlying prices are likely to continue their descent unless the market balance strengthens. The rental market continued to weaken gradually but remained tight. The current market balance reading implies an expected annual rent price growth of about 7%. Most of this increase has already occurred in 2023, and a seasonal decline in single-family rents is expected to temper growth for the remainder of the year.

Regarding housing supply, new construction sales in Toronto Metro saw a significant decline in July, mirroring the trends in the resale market. While this will likely impact housing starts in the future, strong pre-construction sales in 2021-2022 and an increase in rental projects led to robust housing starts in July, reaching the highest level since at least 1973, with over 53,000 units started construction in the last 12 months. On the other hand, housing completions remained in line with historical averages with nearly 34,000 units completed in the last 12 months.

Fixed mortgage rates continued to increase in August which, in combination with lower prices, left housing affordability unchanged around the worst level on record.

The unemployment rate in Toronto Metro edged up slightly in August, aligning with the nationwide trend of a weakening labour market. Rising unemployment, high mortgage rates and low affordability serve as headwinds for the housing market.

XELAN

@xelan_gta

RARE
REAL ESTATE INC

RARE

REAL ESTATE INC