



MORTGAGE
PROFESSIONALS
CANADA

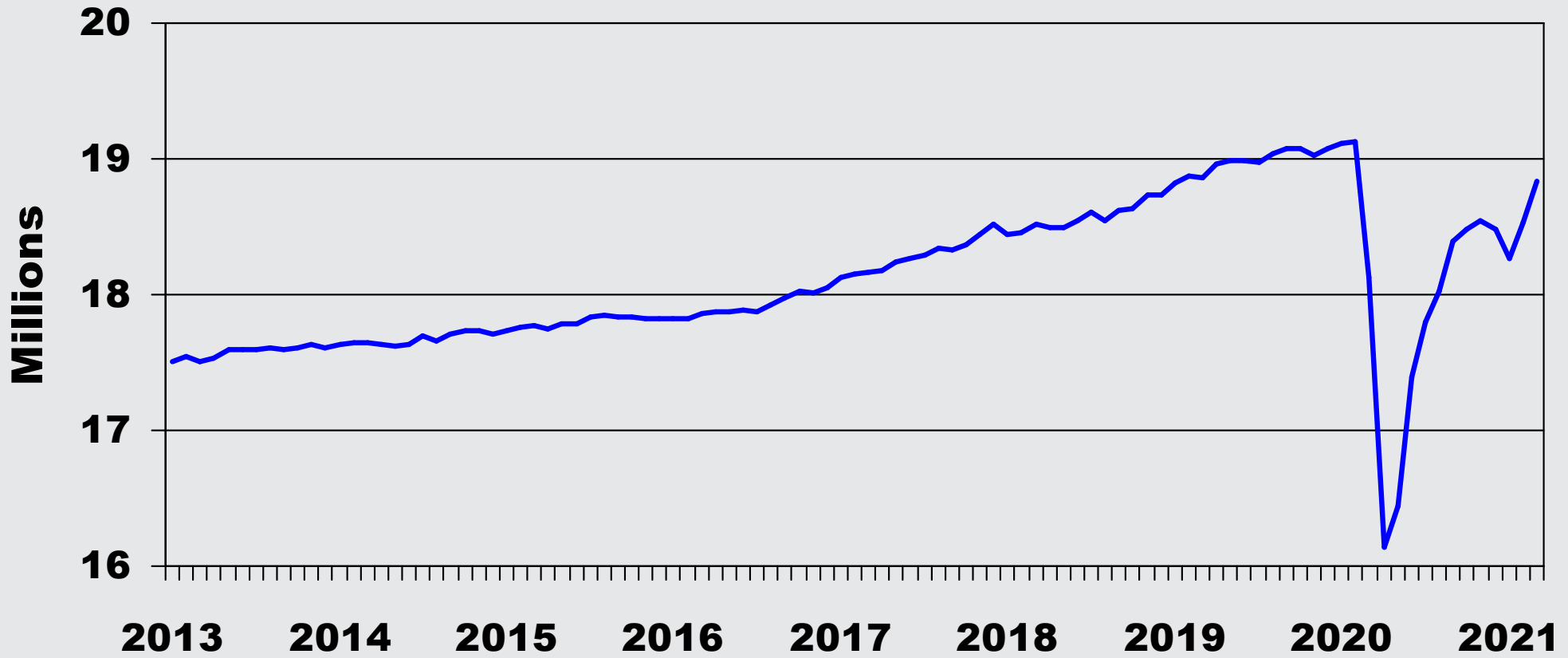
Housing Market Update

Will Dunning
Chief Economist

April 21, 2021

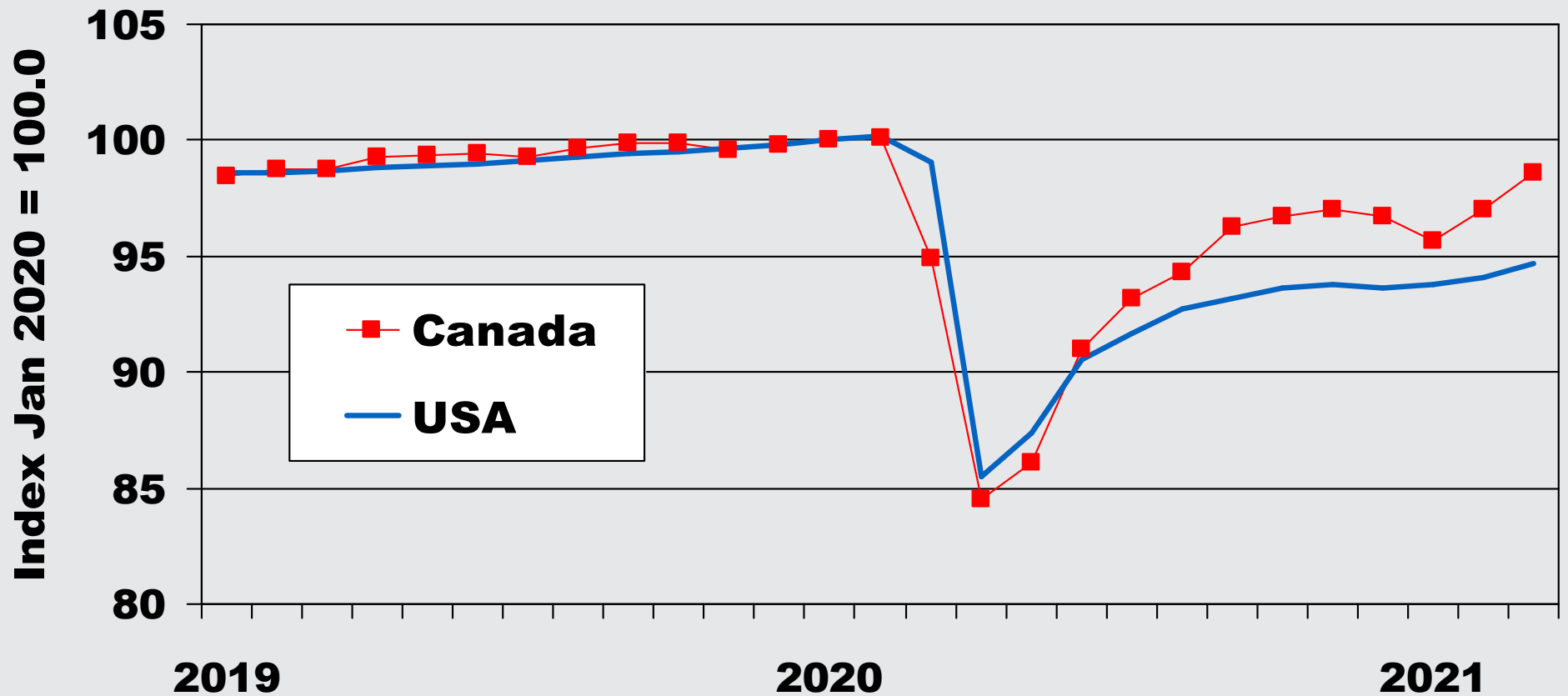


Gyrations for Employment in Canada



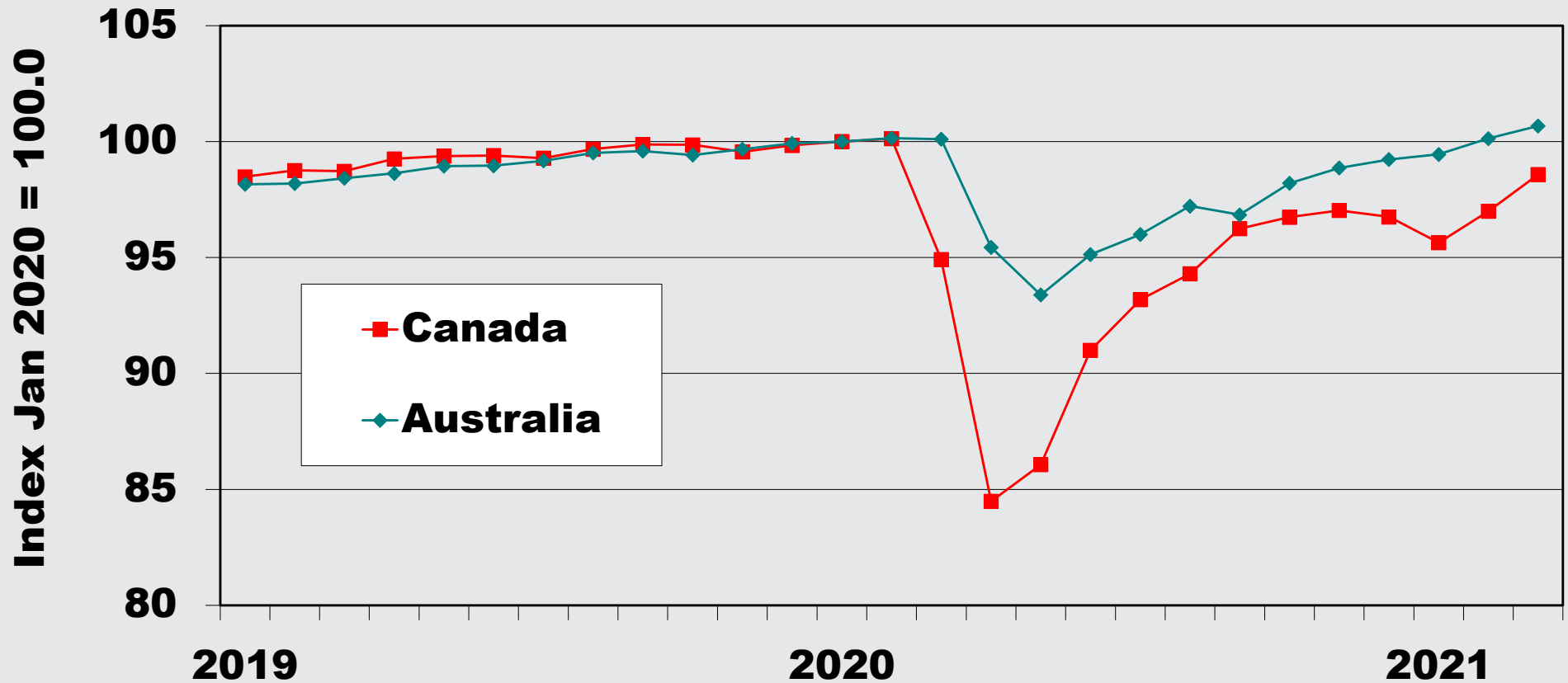
Source: Statistics Canada

Jobs Recovery in Canada versus USA



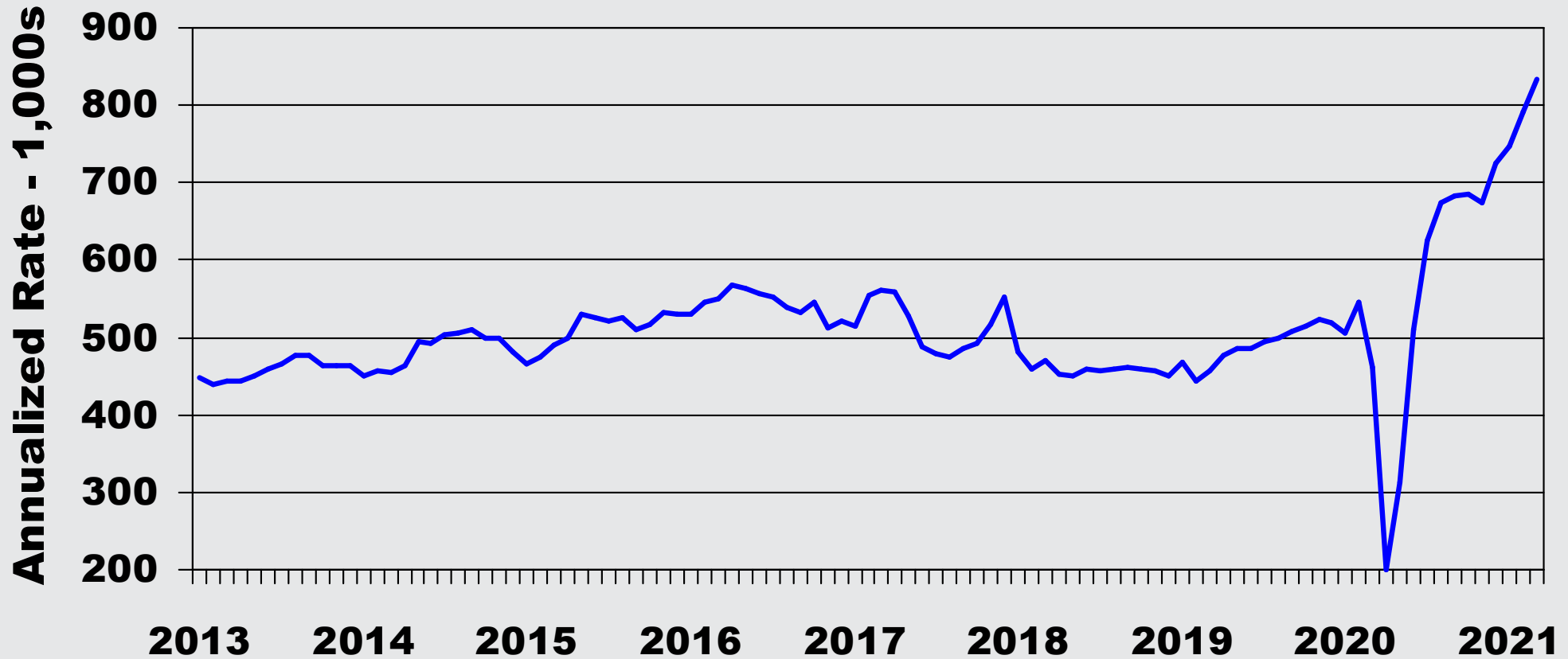
Source: Will Dunning using data from US BLS and Statistics Canada

...versus Australia



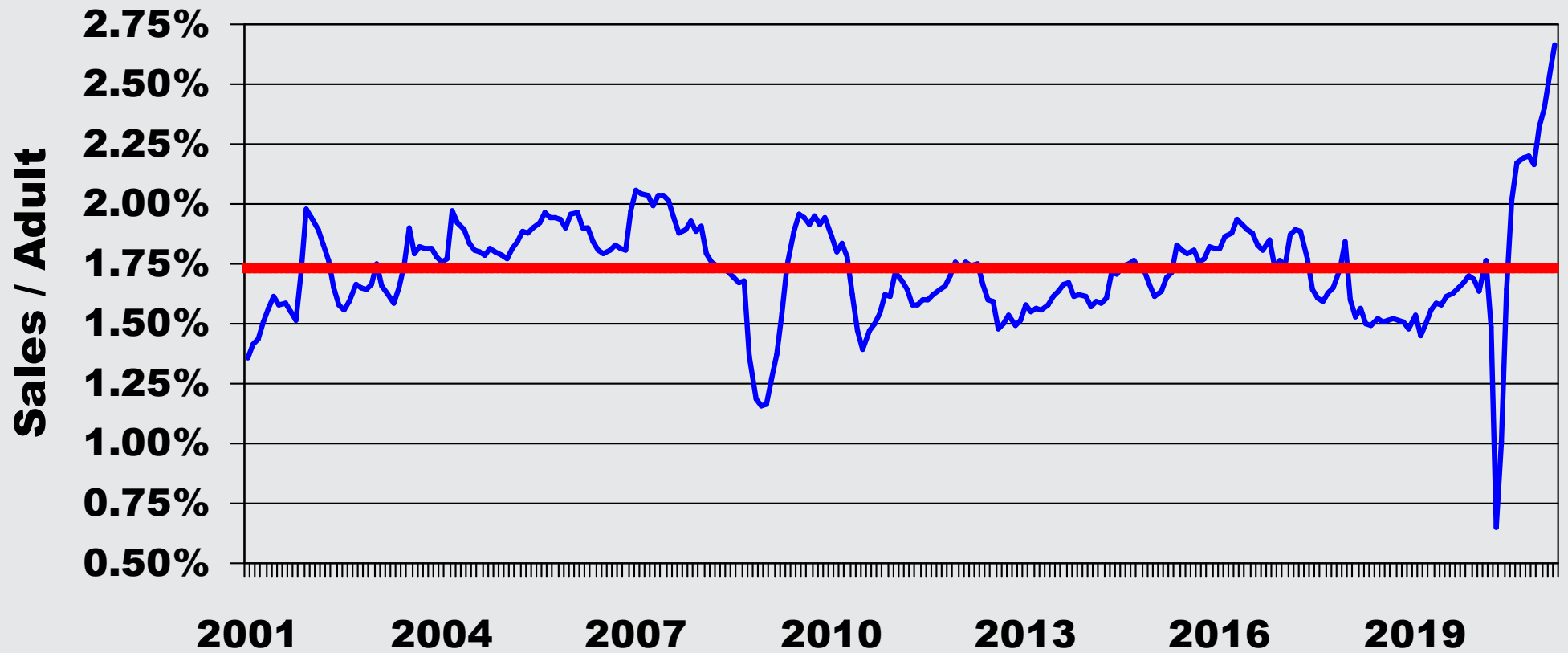
Source: Will Dunning using data from Aust. Bur. Stats and StatsCan

Very Strong Resale Buying in Canada



Source: CREA

Resales Per Adult in Canada



Source: calculations by Will Dunning

Resale Rates Across Canada Versus Long-Term Averages



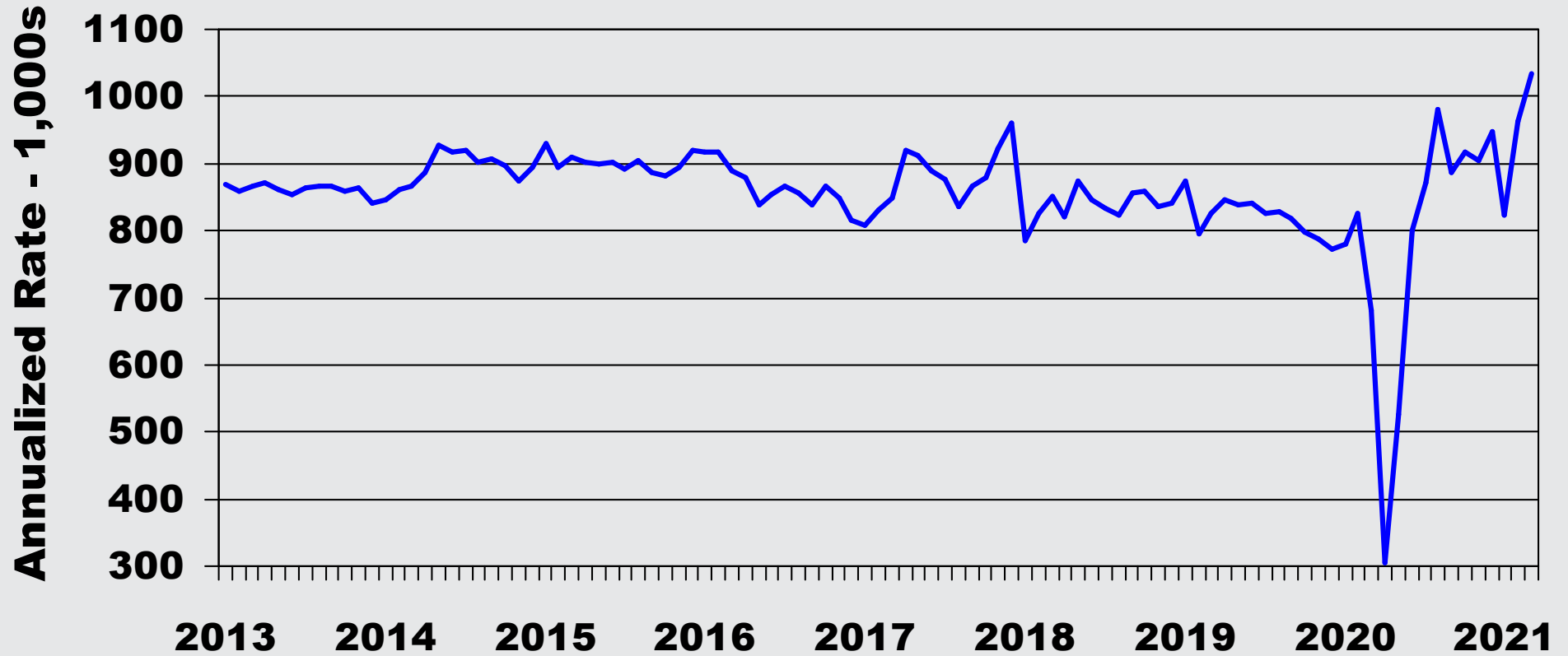
<i>Location</i>	<i>Last 3 Months</i>
Canada	+ 47%
Newfoundland & Labrador	+ 64%
PEI	+ 40%
Nova Scotia	+ 69%
New Brunswick	+ 82%
Quebec	+ 49%
Ontario	+ 45%
Manitoba	+ 57%
Saskatchewan	+ 52%
Alberta	+ 22%
British Columbia	+ 53%
<i>Calculations by Will Dunning</i>	

Sales Surplus/Deficits Since January 2018



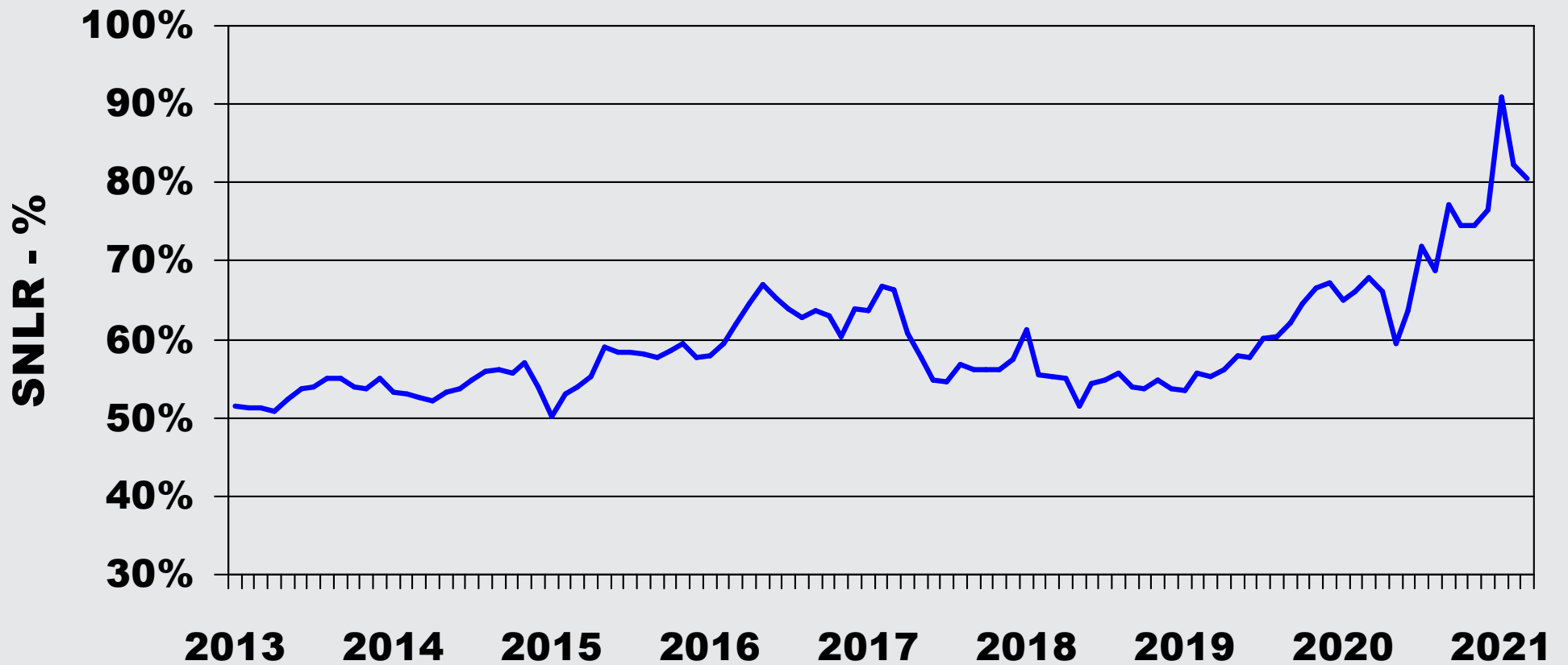
<i>Location</i>	<i>Estimate</i>
Canada	- 37,000
Newfoundland & Labrador	+ 1,000
PEI	+ 1,000
Nova Scotia	+ 6,000
New Brunswick	+ 7,000
Quebec	+ 55,000
Ontario	- 24,000
Manitoba	+ 3,000
Saskatchewan	- 1,000
Alberta	- 46,000
British Columbia	- 39,000
<i>Calculations by Will Dunning</i>	

Smaller Rise for Listings



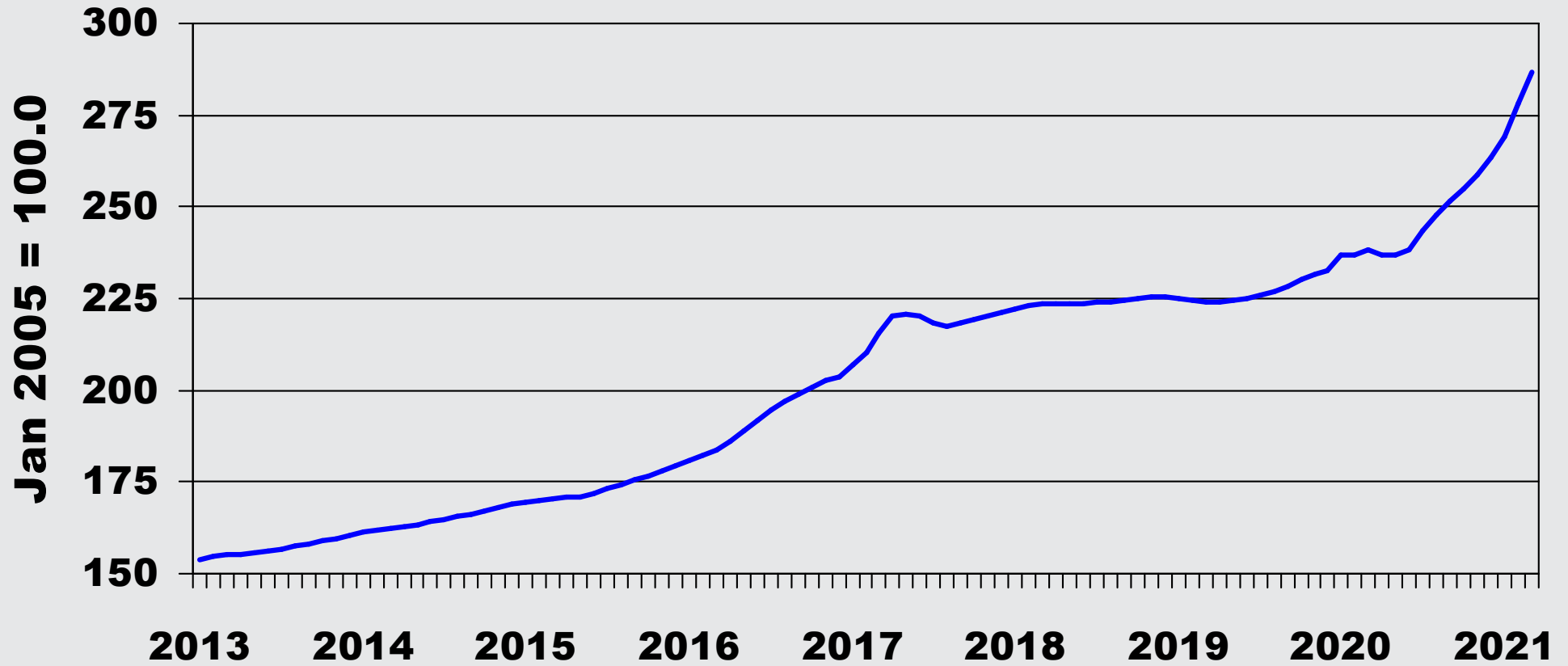
Source: CREA

Sales-to-New-Listings Ratio Shows a Very Tight Housing Market



Source: CREA

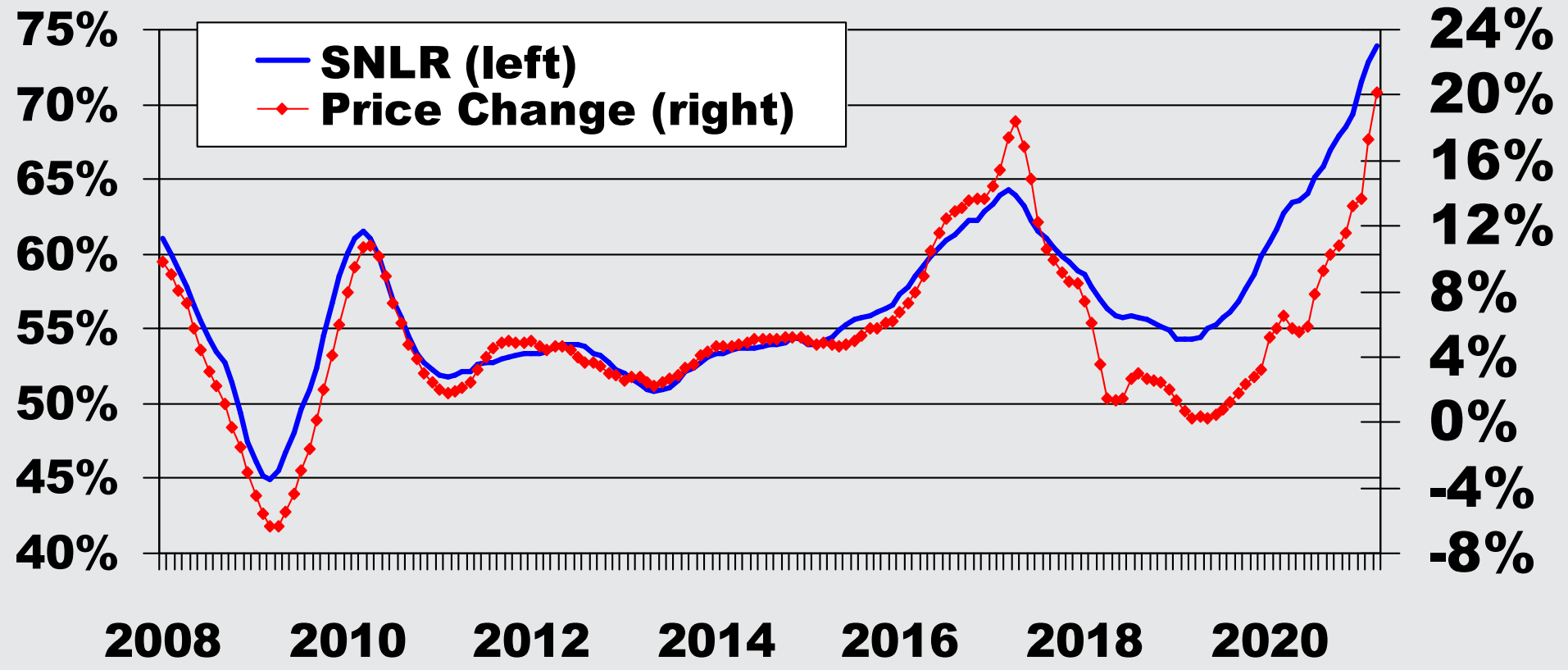
CREA Price Index Shows Extreme Growth



Source: CREA

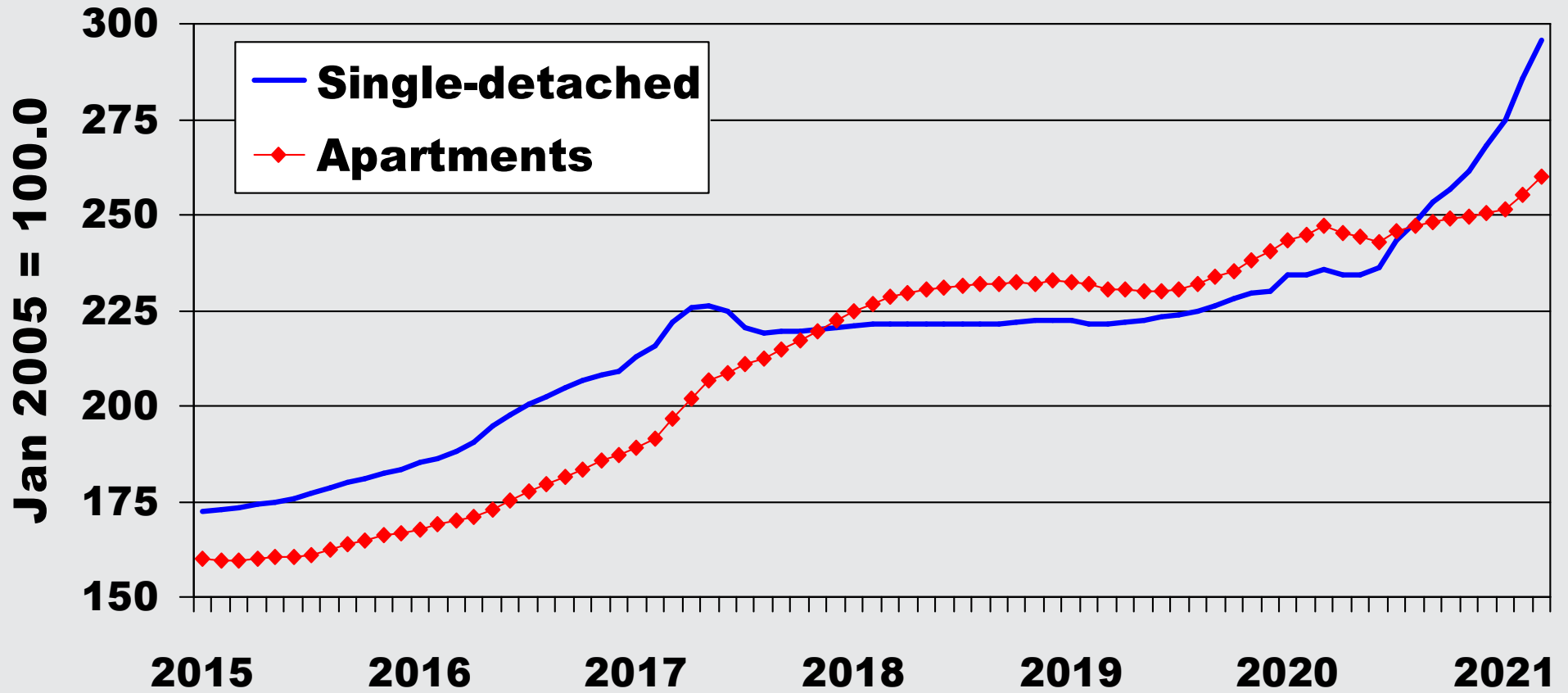


Growth in CREA HPI vs SNLR



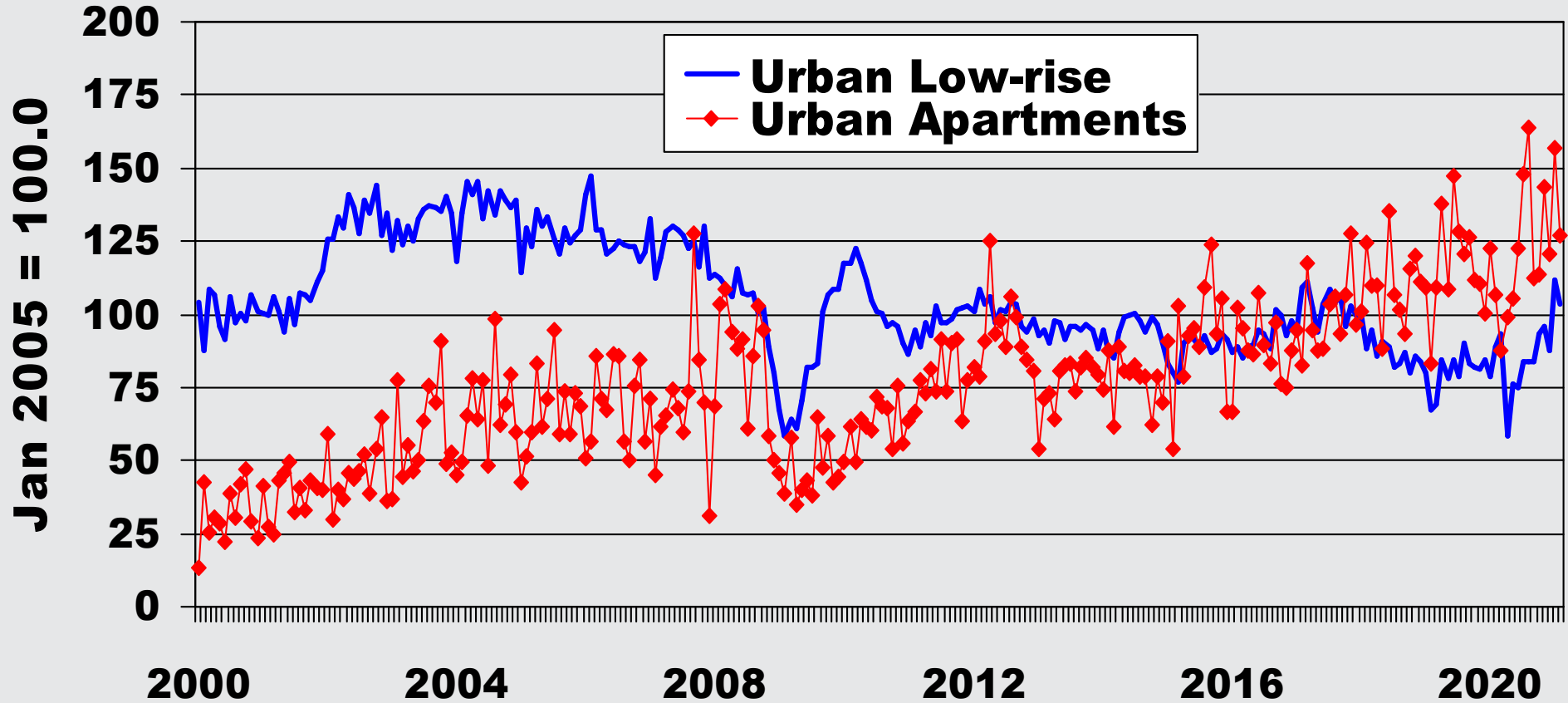
Source: Calculations by Will Dunning

Different Trends for Low-Rise vs Apartments



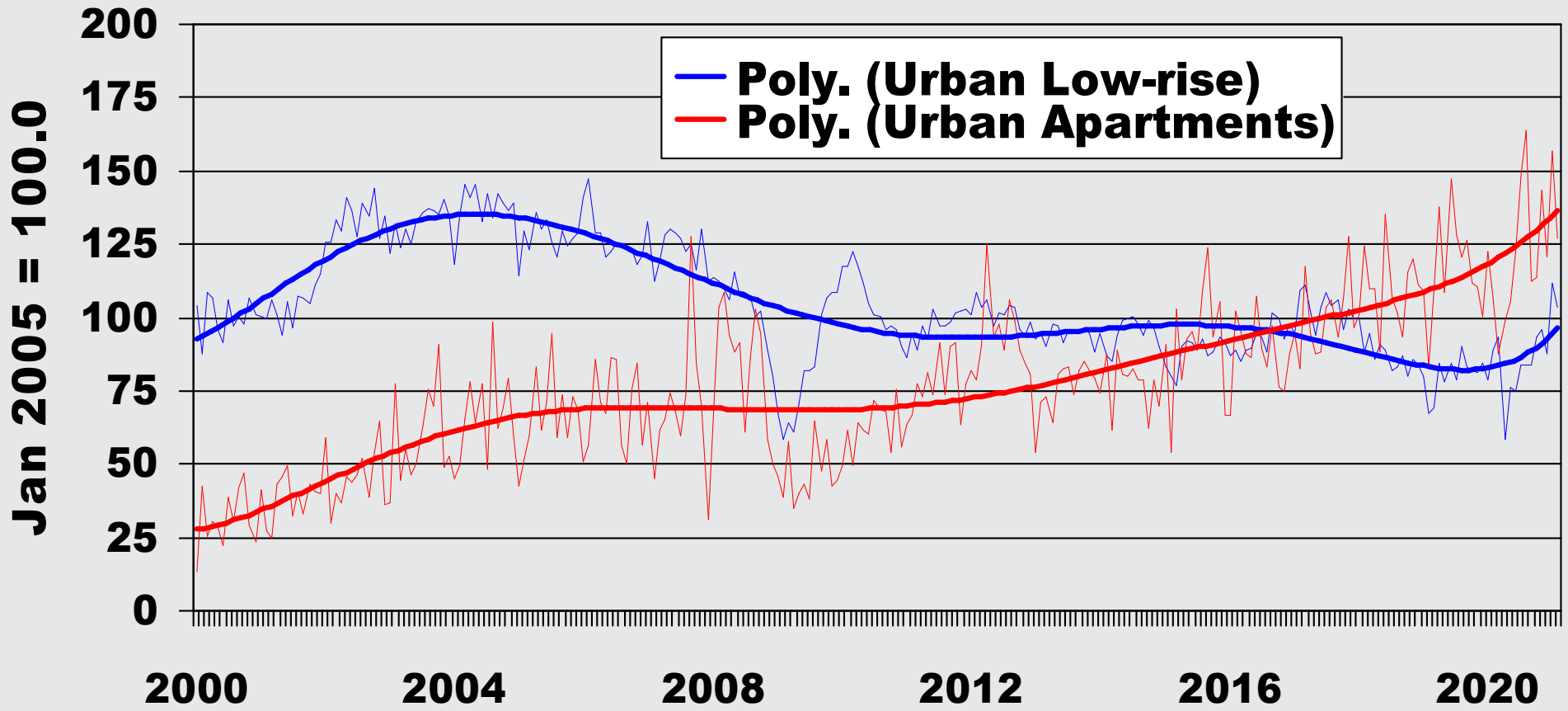
Source: CREA

Housing Starts for Low-Rise vs Apartments



Source: CMHC

Trends for Low-Rise vs Apartments



Source: CMHC / Will Dunning

Extreme Heat in Canadian Housing Markets



- ✉ Excellent affordability
- ✉ A “sorting process”
- ✉ Stable employment situations for most of us
- ✉ Insufficient supplies of new housing
- ✉ Current effect of rising rates?



The B Word

✉ Expectations of price increase are a primary motivator

✉ Expectations unrealistic

✉ Prices divorced from “value”

✉ Speculation/flipping

✉ Panic buying

✉ Little appreciation of risk

✉ A feedback loop results in self-fulfilling expectations

*These are issues we want to investigate before concluding there is a bubble.
I would like to have a lot more information and data before drawing firm conclusions*

The amount of future damage depends on how many people make mistakes / purchases they later regret



Causes of Inadequate Housing Supply

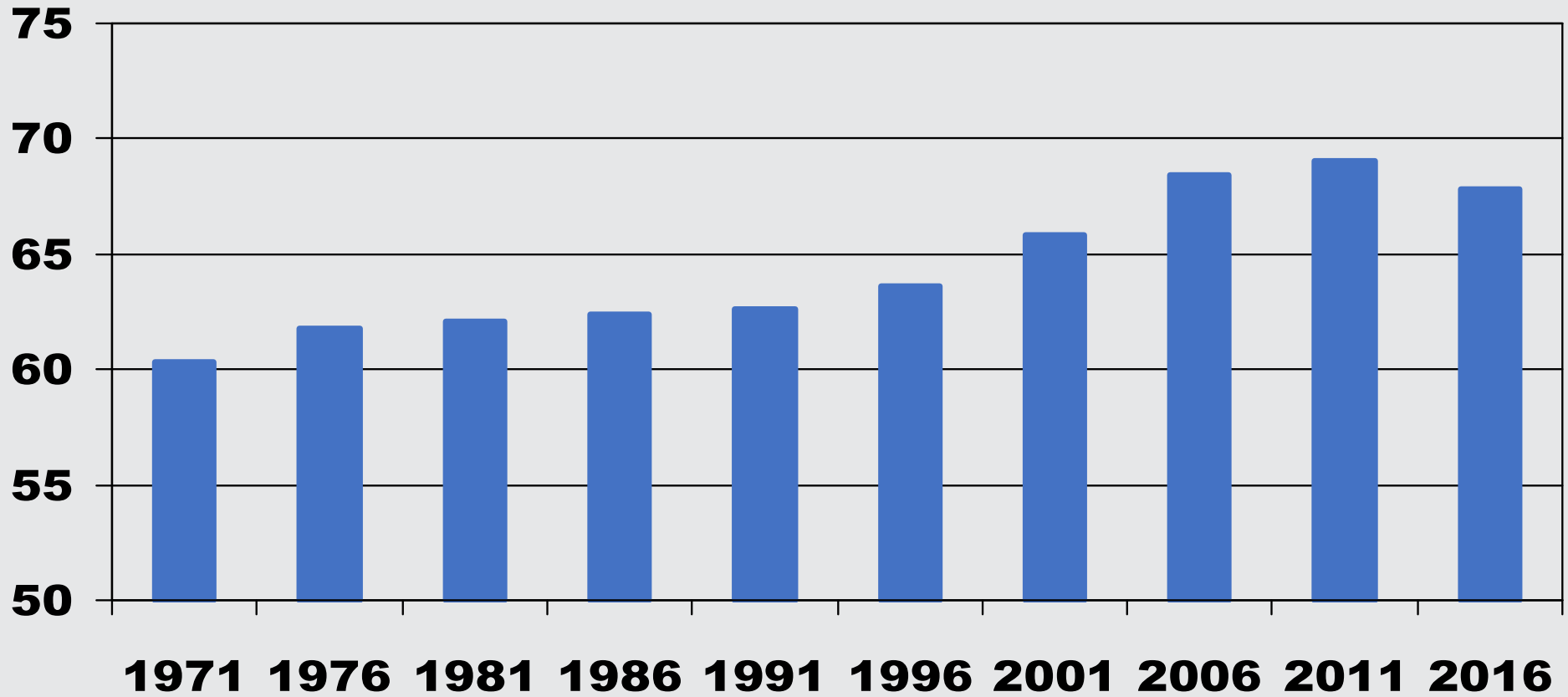
- ✉ Provincial & municipal land use policies
- ✉ Prolonged approval processes
- ✉ Rising government-imposed costs
- ✉ Delayed infrastructure
- ✉ Mortgage regulations that suppress demand



“Short-term Pain for Long-Term Dire Straits”

John Crosby

Ownership Rate Has Reversed Direction

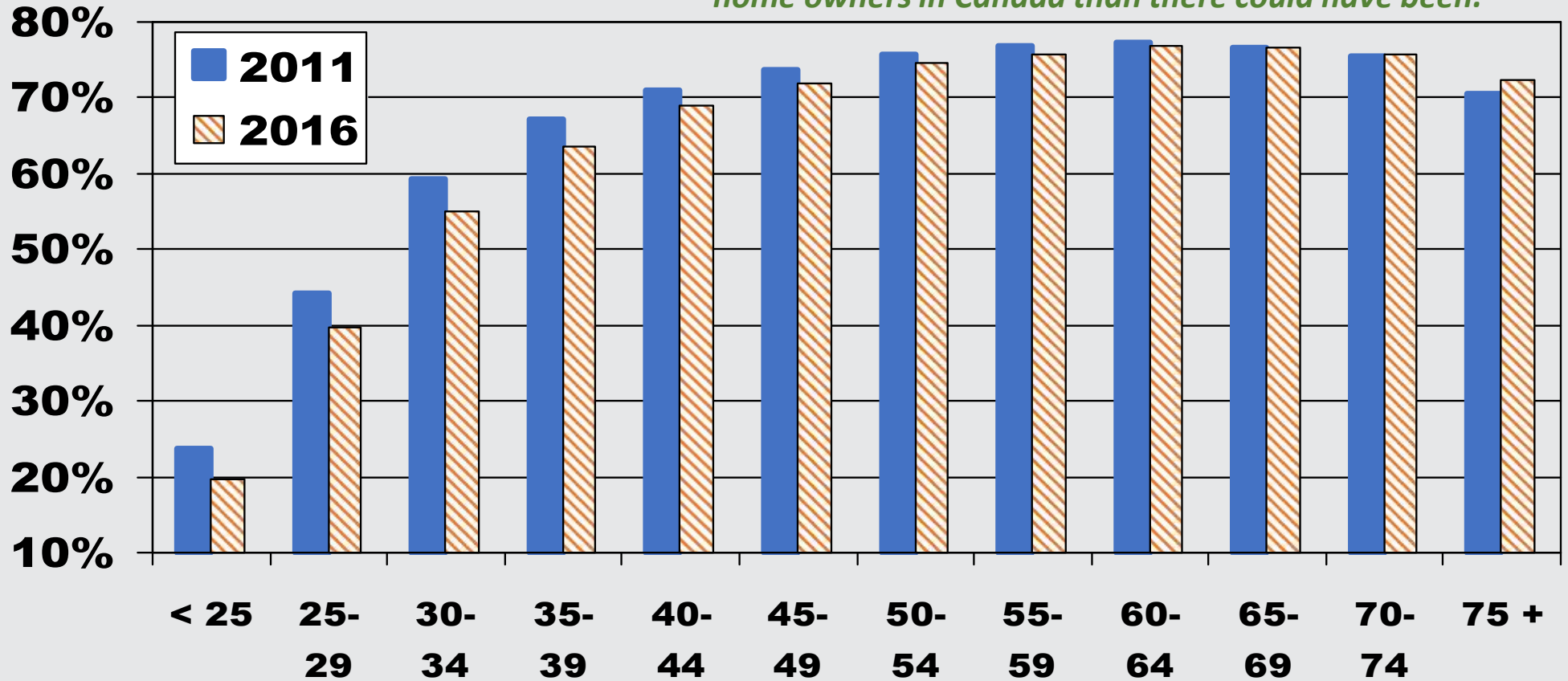


Source: Statistics Canada



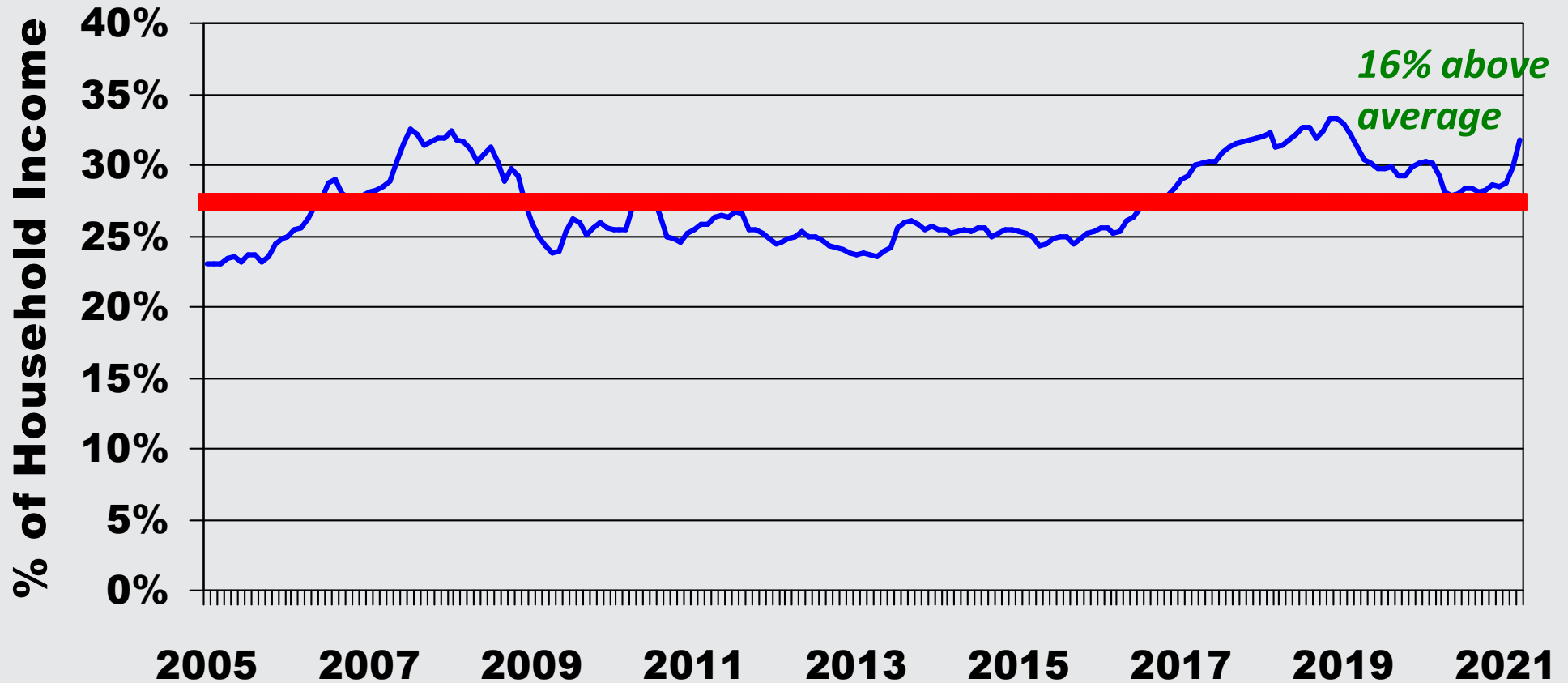
Sharp Drops for Younger Age Groups

This data implies that in 2016 there were 200,000 fewer home owners in Canada than there could have been.



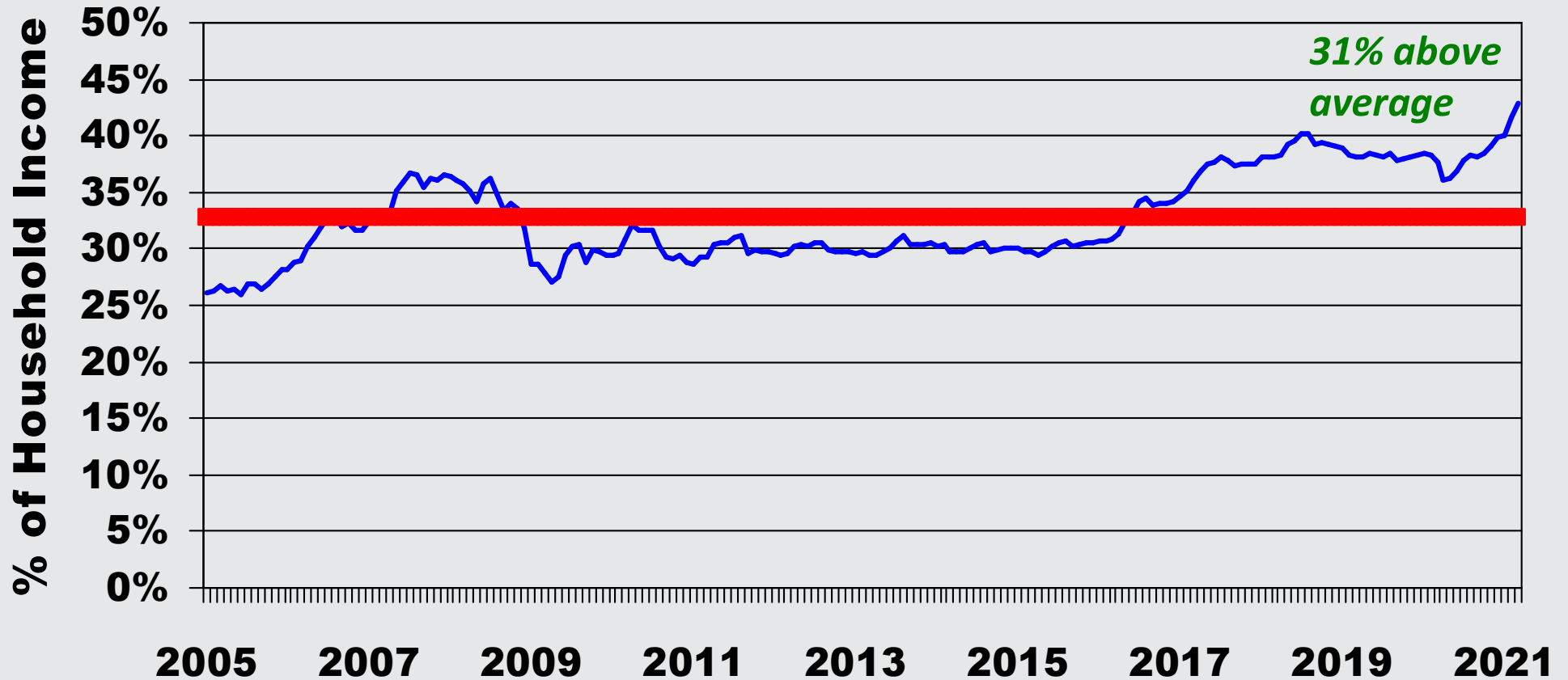
Source: Statistics Canada

Mortgage Cost Index for Typical Purchase Scenarios



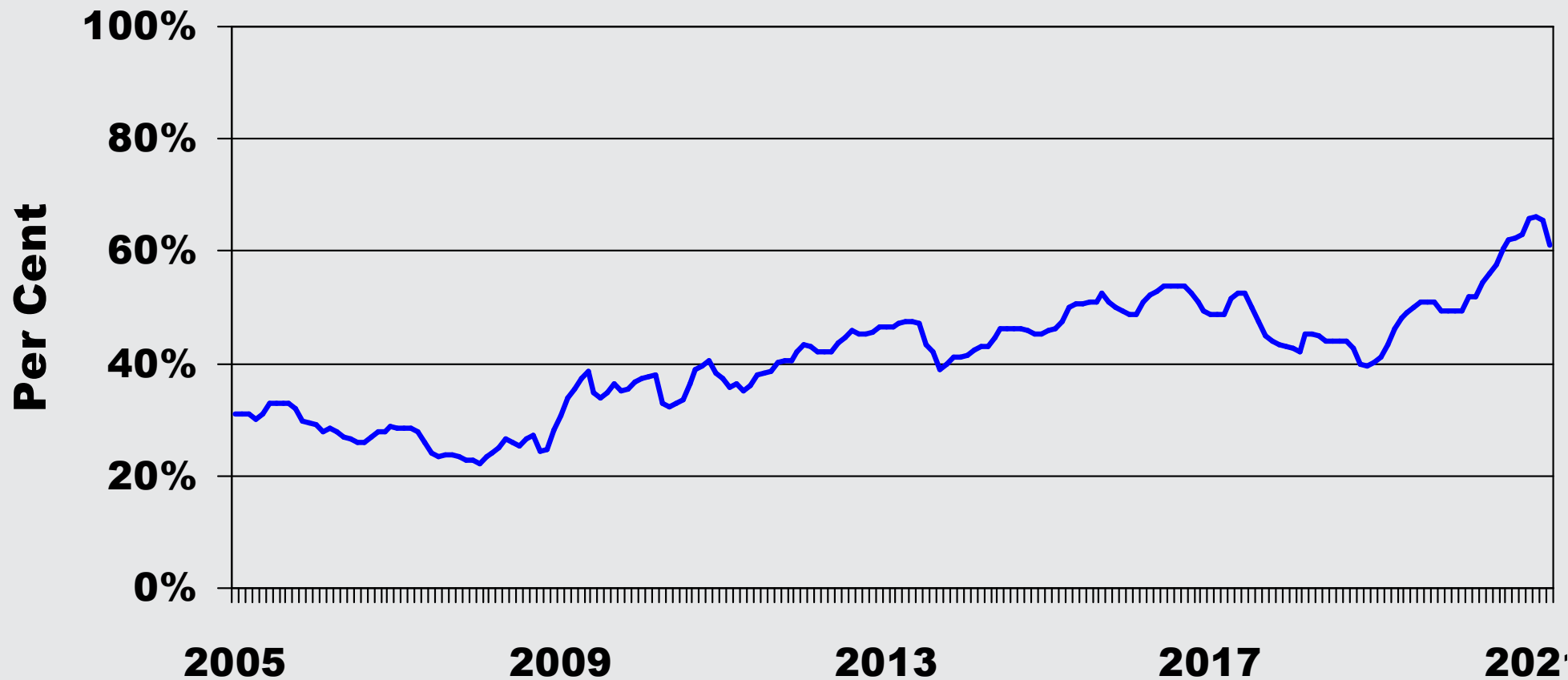
Source: Calculations by Will Dunning

Mortgage Cost Index Using Posted Rates



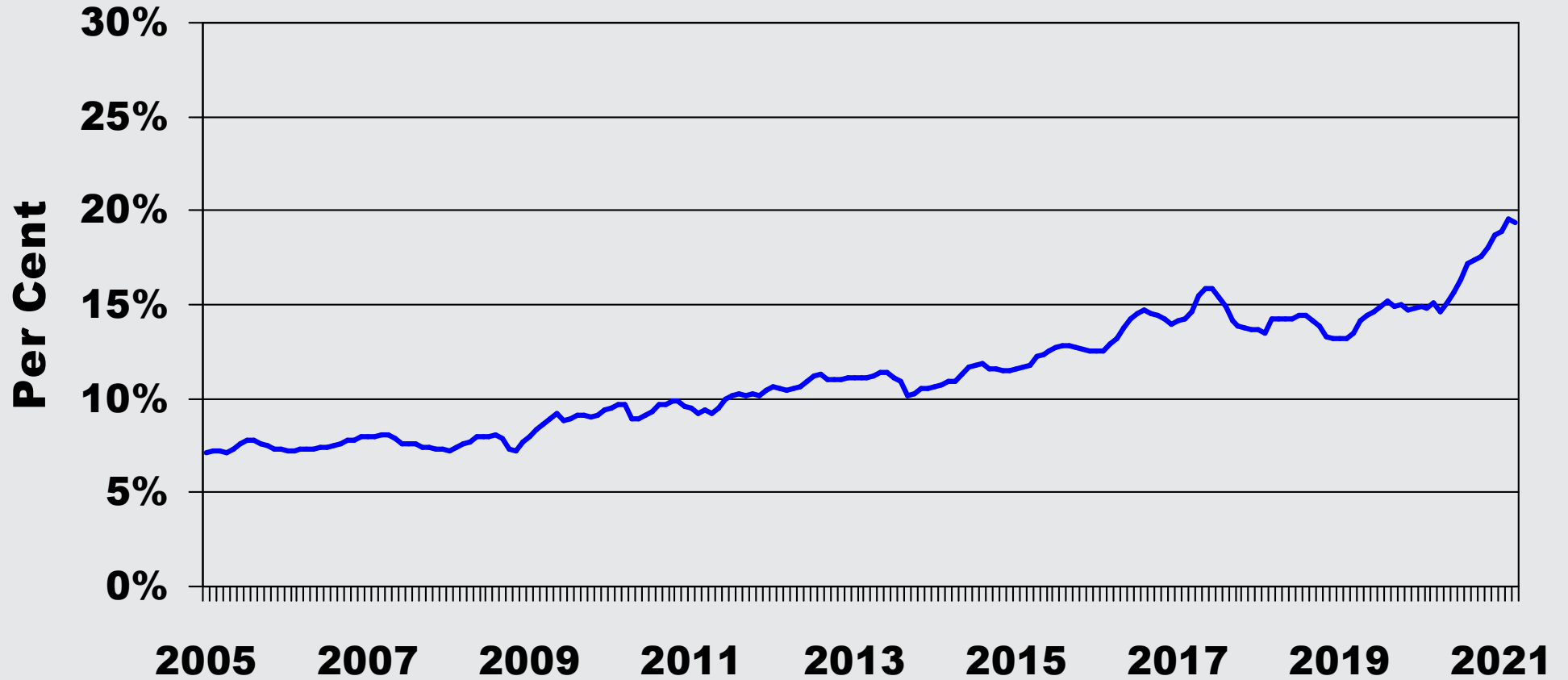
Source: Calculations by Will Dunning

Per Cent of First Payment for Principal



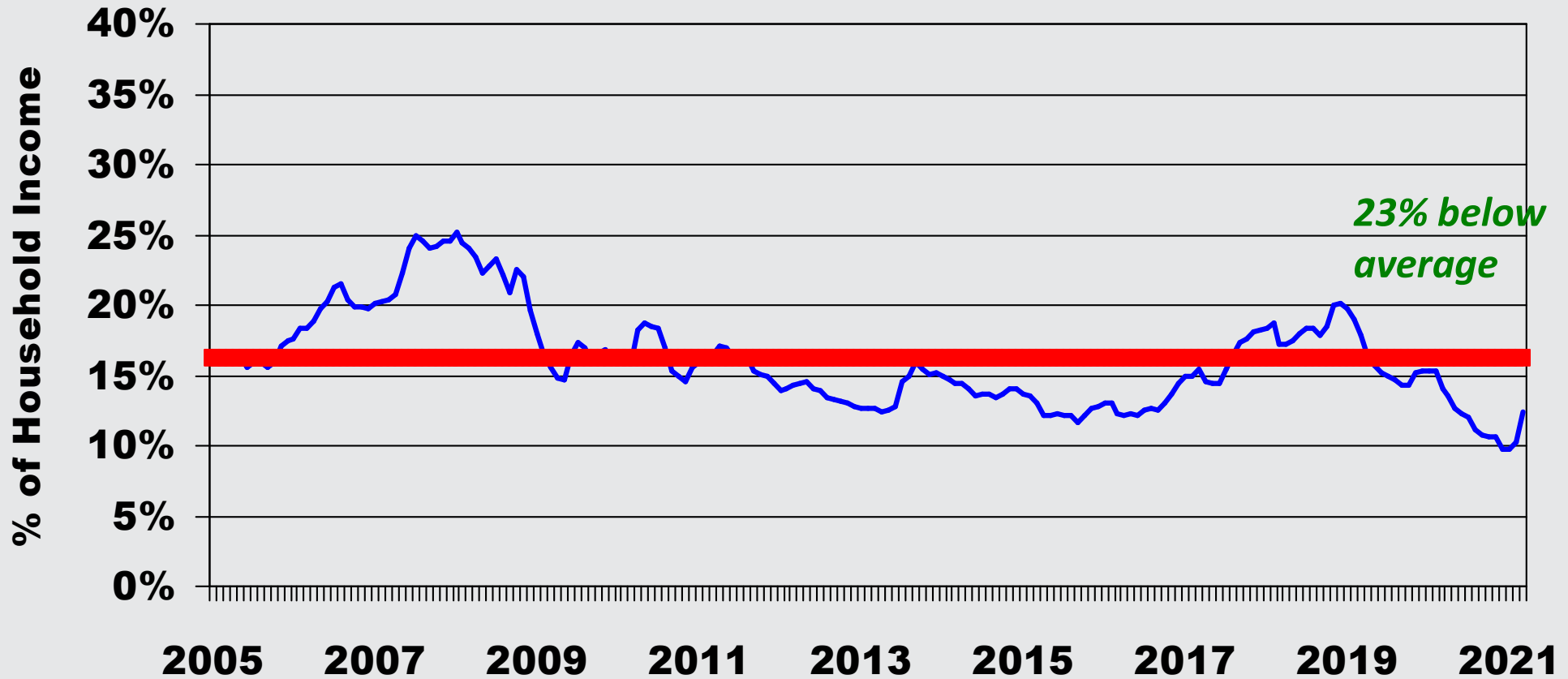
Source: Calculations by Will Dunning

"Forced Saving" Rate as % of Income



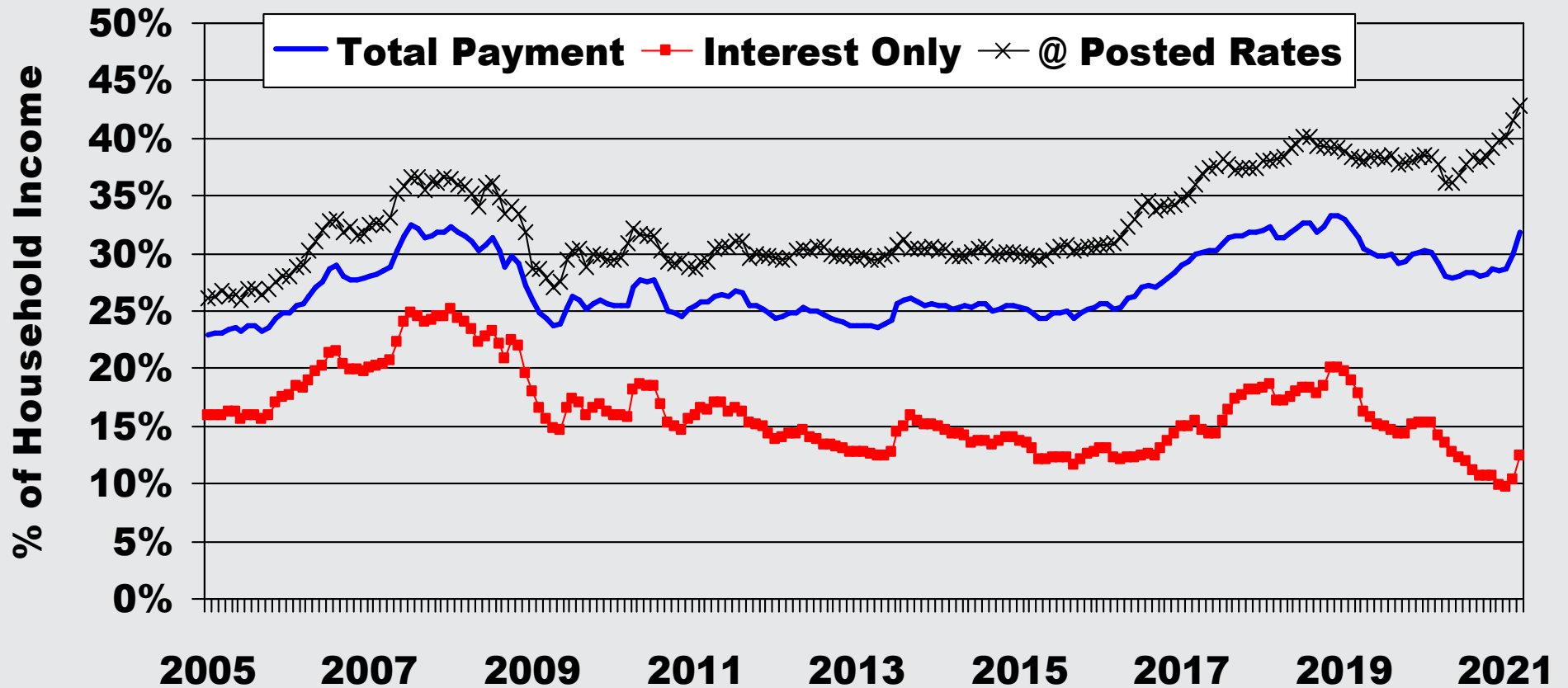
Source: Calculations by Will Dunning

Interest Cost Index for Typical Purchase Scenarios



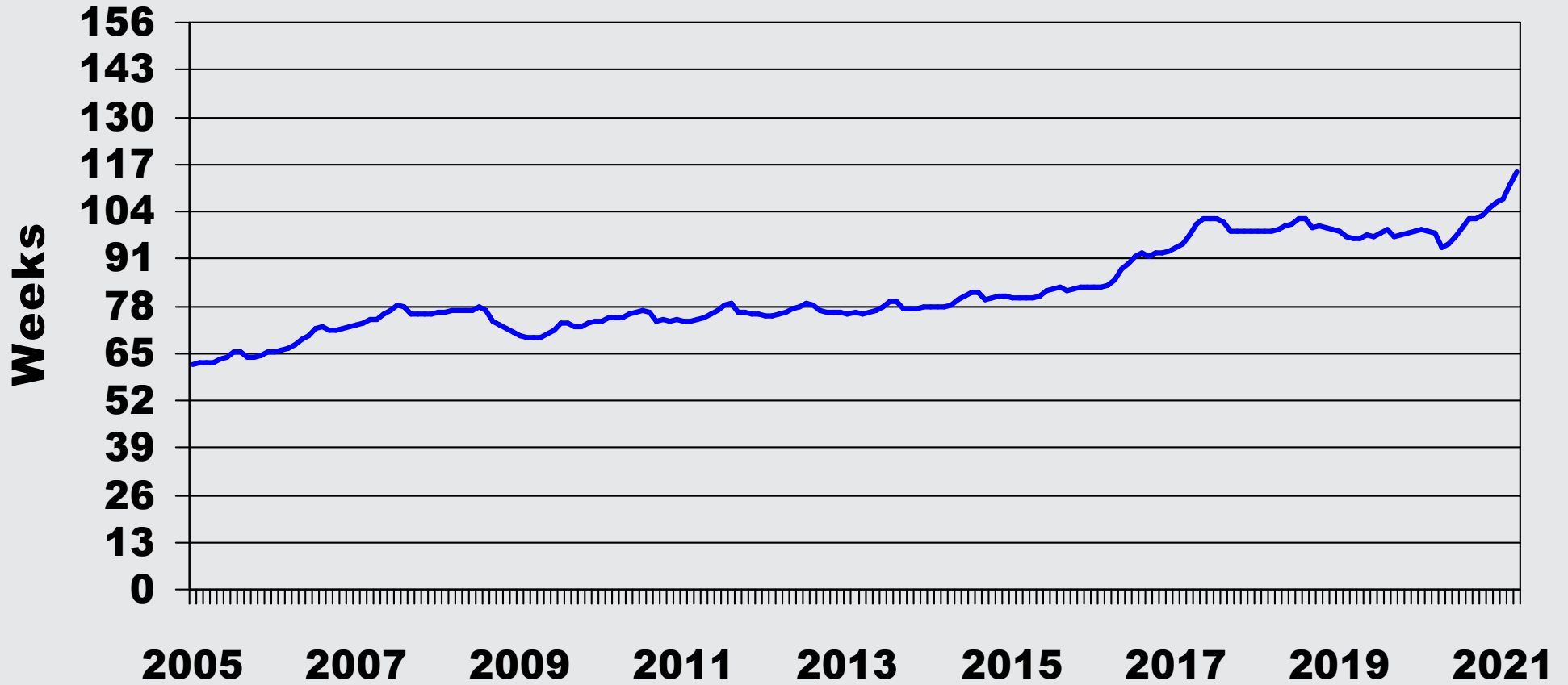
Source: Calculations by Will Dunning

Comparing Cost Estimates



Source: Calculations by Will Dunning

Weeks of Pay for a 20% Down Payment



Source: Calculations by Will Dunning

Owning Versus Renting a Condominium Apartment in Downtown Toronto



List price	\$706,000
Mortgage amount (80% of price)	\$564,800
Monthly mortgage payment @ 2.1%, 25-year amortization	\$2,419
Common charges	\$417
Taxes	\$236
Total costs	\$3,071
Asking rent	\$2,150
Net rent	-\$921
<i>Interest-only basis</i>	
Interest cost	\$984
Total monthly cost	\$1,637
Adjusted monthly net rent	\$513
<i>Source: calculations by Will Dunning</i>	

When we account for savings that result from repayment of principal, owning is usually less expensive than renting the equivalent dwelling. That's a large part of why Canadians want to be owners. The monthly advantage of ownership rises rapidly after the purchase (in this example, >\$800 after 5 years).



There are No Easy Solutions

Supply responses take too long; discussions focus on demand suppression:

- ✎ Capital gains on principle residences
- ✎ Mortgage regulations
- ✎ Investment buying
- ✎ Vacancy taxes
- ✎ Speculators
- ✎ Foreign buyers
- ✎ Slower population growth?
- ✎ Eliminate dirty money?
- ✎ More transparent bidding process?
- ✎ Interest rates?

To varying degrees, policy options to suppress demand will reduce new construction, contributing to worse supply shortages in the future.



3 Reasons Forecasting Can't Work Now

1. The technical analysis
2. The assumptions
3. Judgment

Economic forecasts tells us more about the forecaster than about the future



Covid-19 Has Delivered A Big Implication for Mortgage Policies

The greatest risk for the mortgage market is loss of ability to pay,

Not changes in payments.

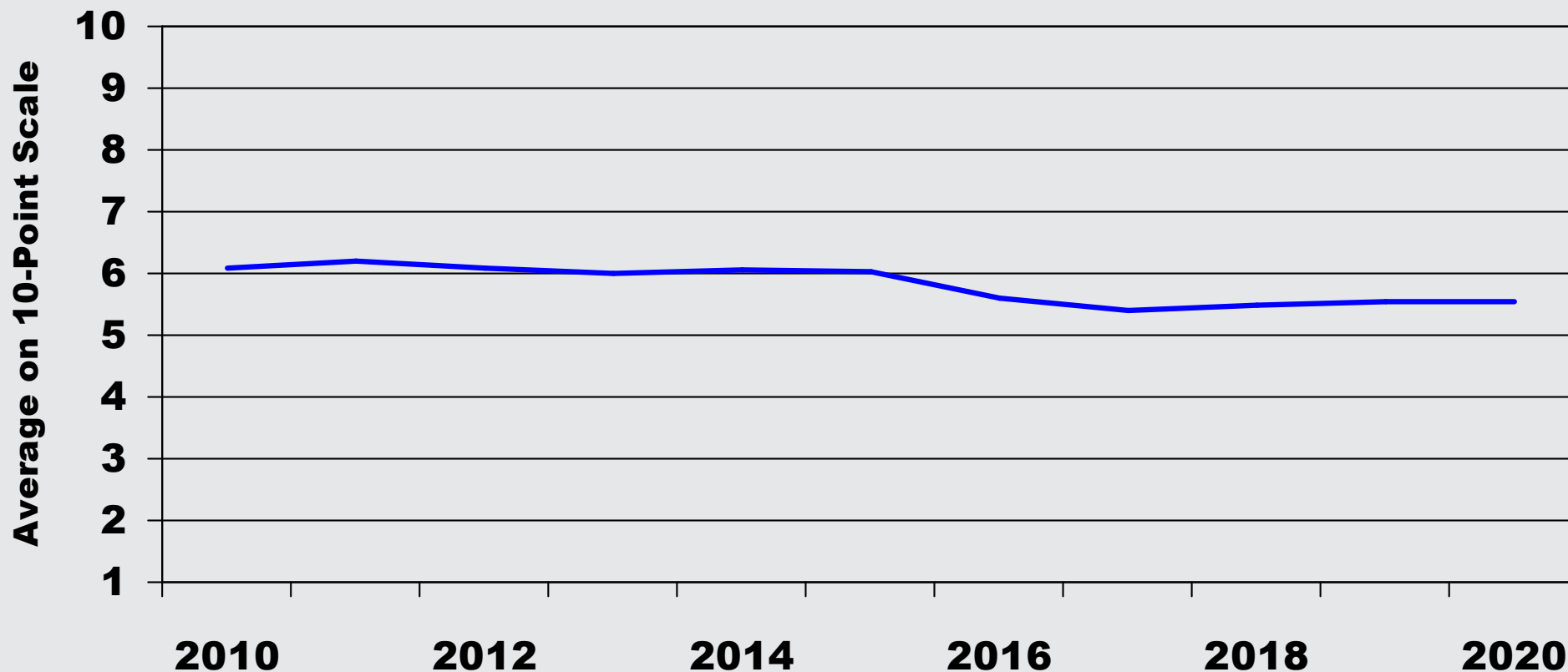
“Annual State of the Residential Mortgage Market in Canada”



Major topics

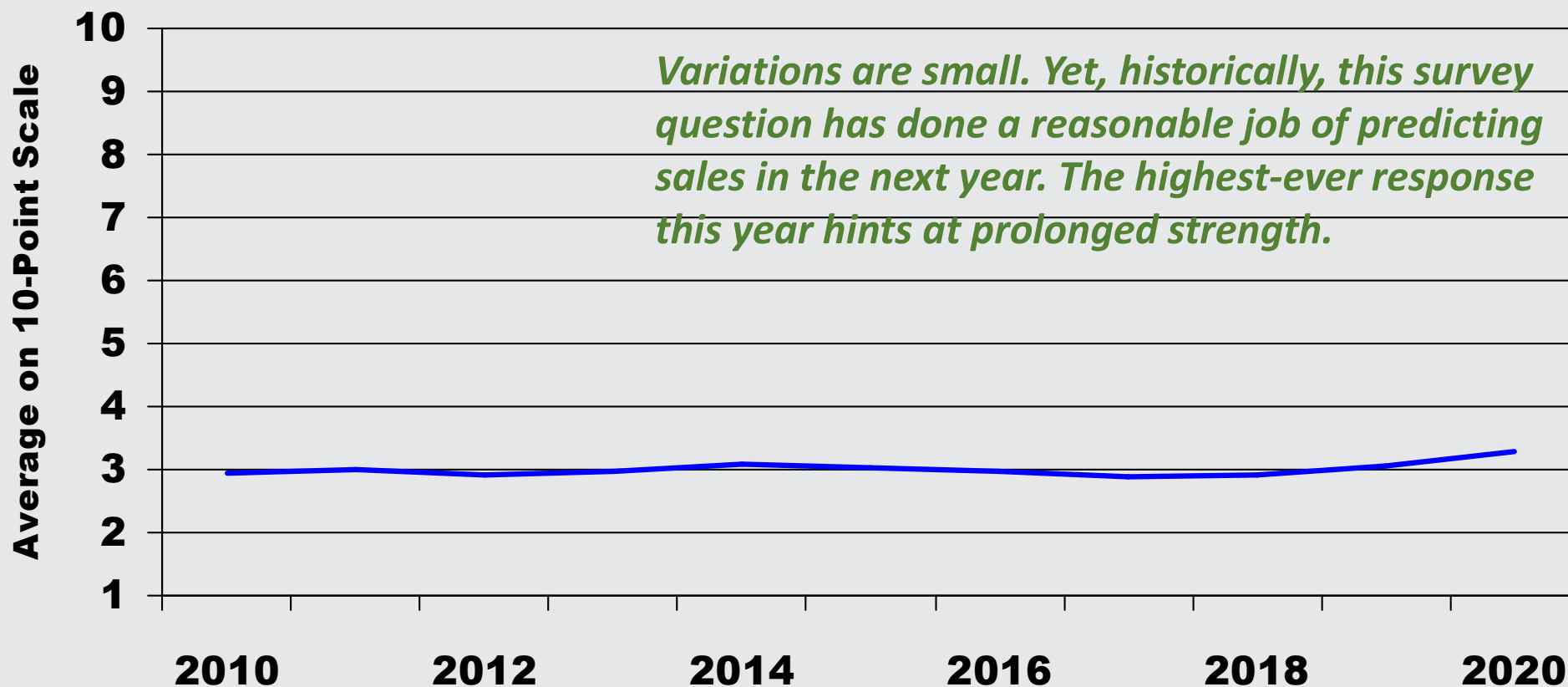
- ✧ Mortgage choices
- ✧ Pre-payment activity
- ✧ Sources of down payments
- ✧ Attitudes and expectations
 - ✧ including housing as an investment
- ✧ Home equity
- ✧ Equity take-out

“Now is a good or bad time to buy a home/ condominium in my community”



Source: Mortgage Professionals Canada

“How likely are you to purchase a new property in the next year?”



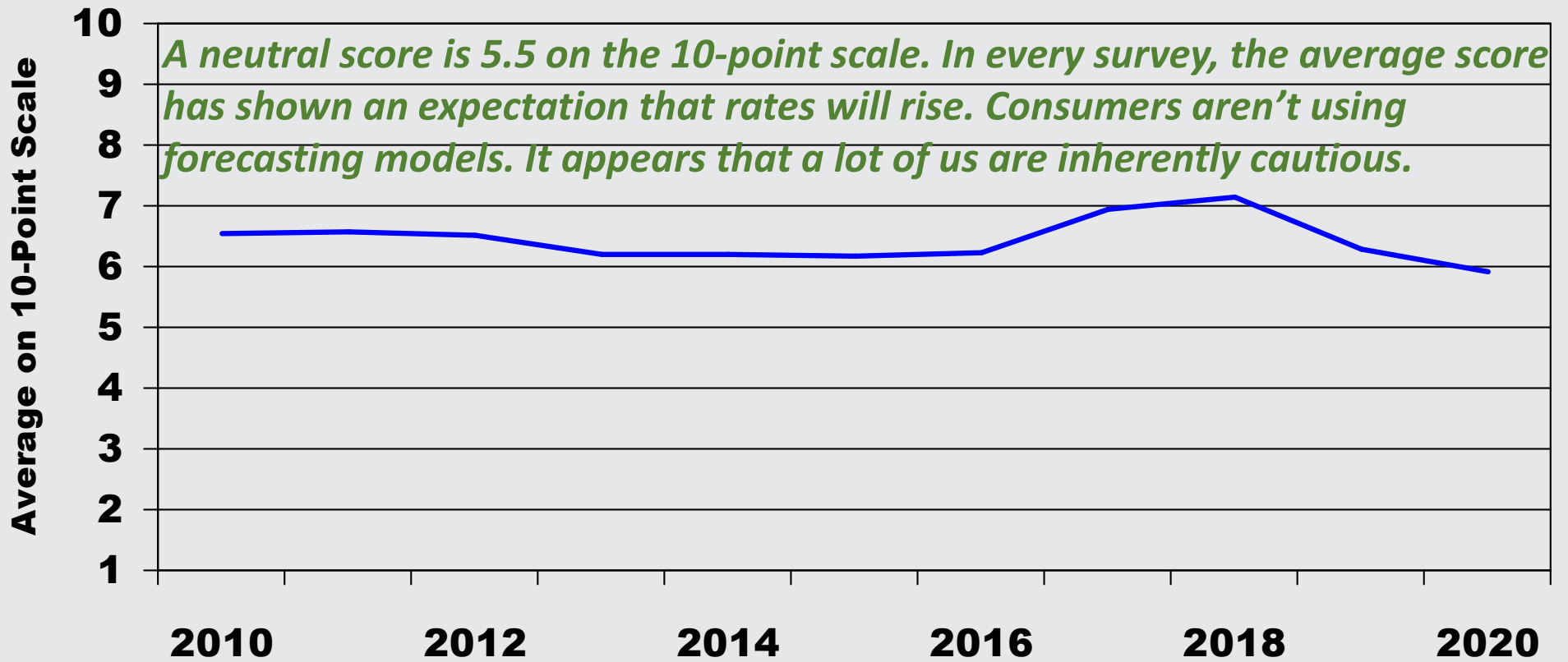
Source: Mortgage Professionals Canada

“Expectations for housing prices in my community (the coming year)”



Source: Mortgage Professionals Canada

“Expectations for mortgage interest rates (the coming year)”



Source: Mortgage Professionals Canada



Other Research

📁 Housing Market Digests

📁 "Perspectives" magazine

Personal projects

📁 Housing supply versus requirements

📁 Owning versus renting in Canada

About Will Dunning



Analysis of housing markets since 1982

Services include:

- ✉ Custom research on economics and housing markets.
- ✉ Briefings and presentations.

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