



METRO DEEP-DIVE: APRIL DATA

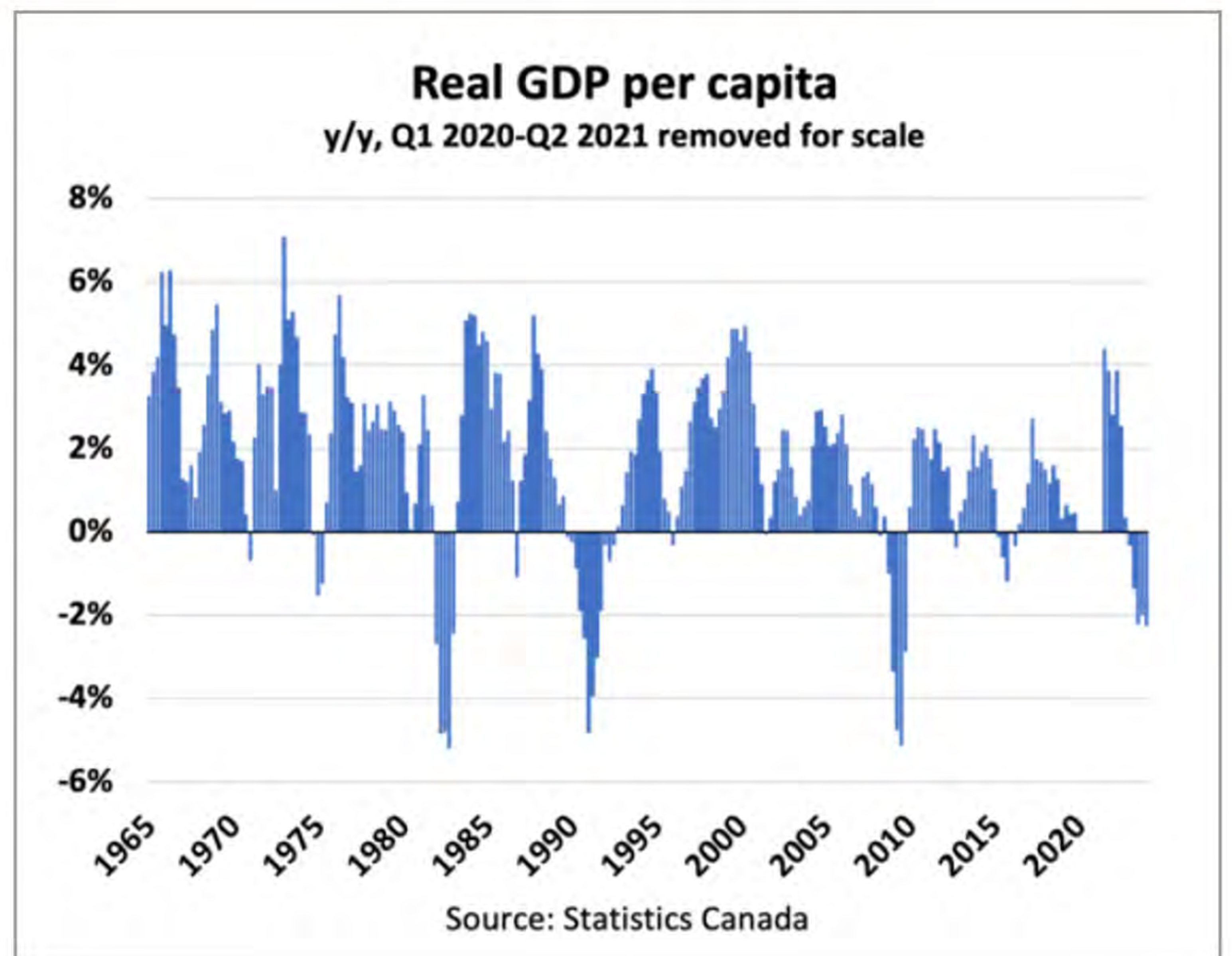
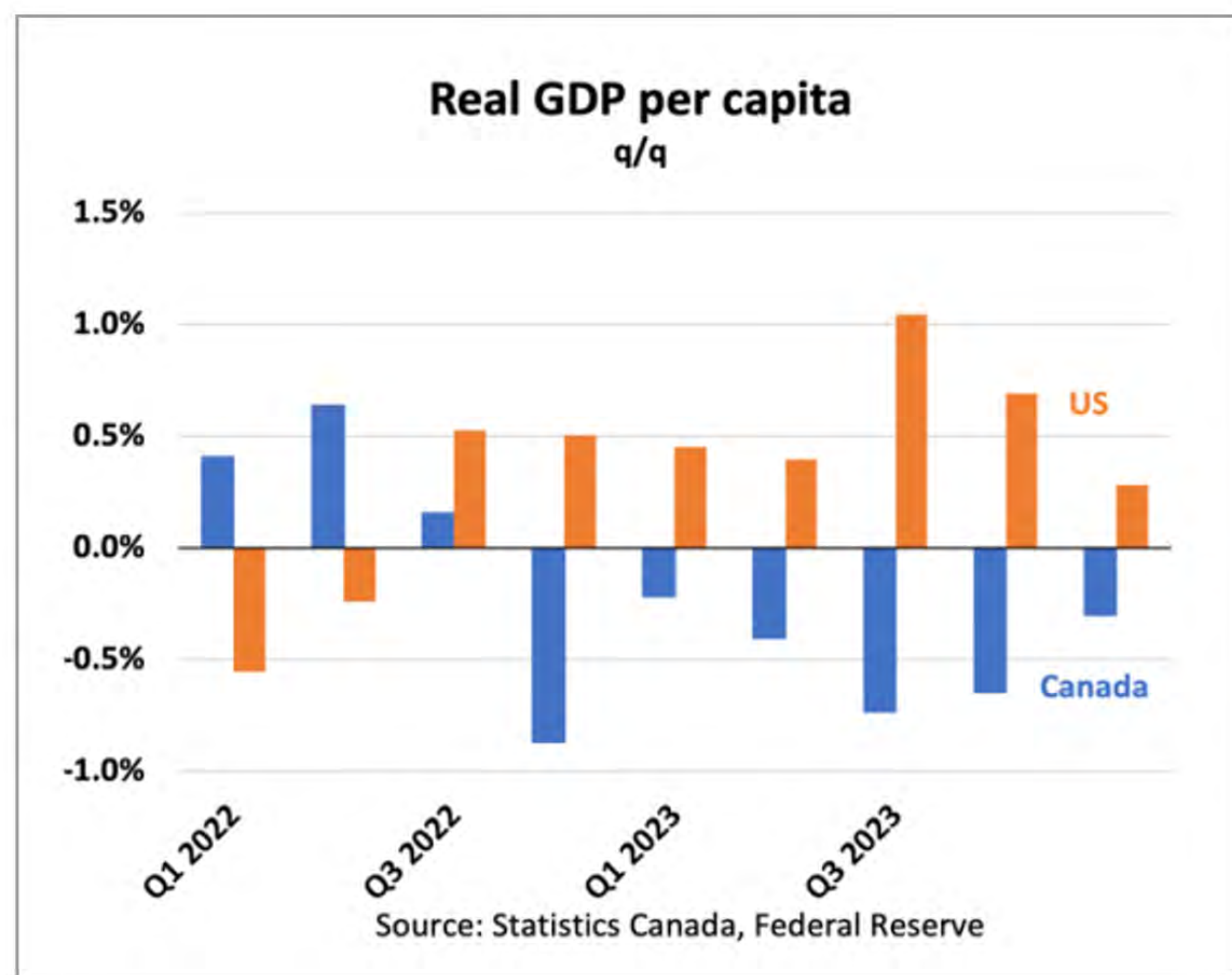
May 2024



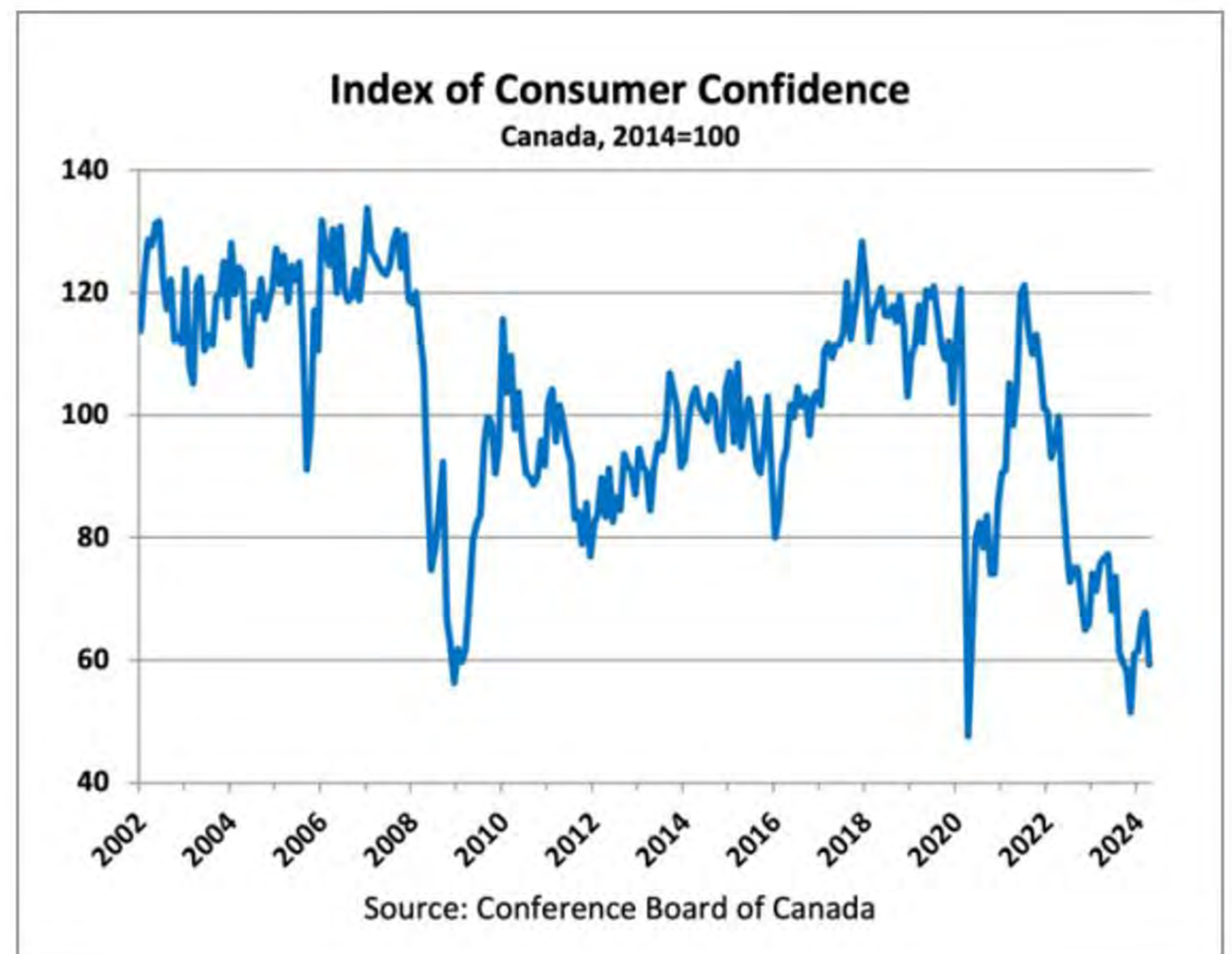
1) *Macro commentary: Rate cut expectations pushed to July in spite of weak data*

It's been a bit frustrating to see a string of disappointing economic data and yet to have rate cut expectations pushed further out to July.

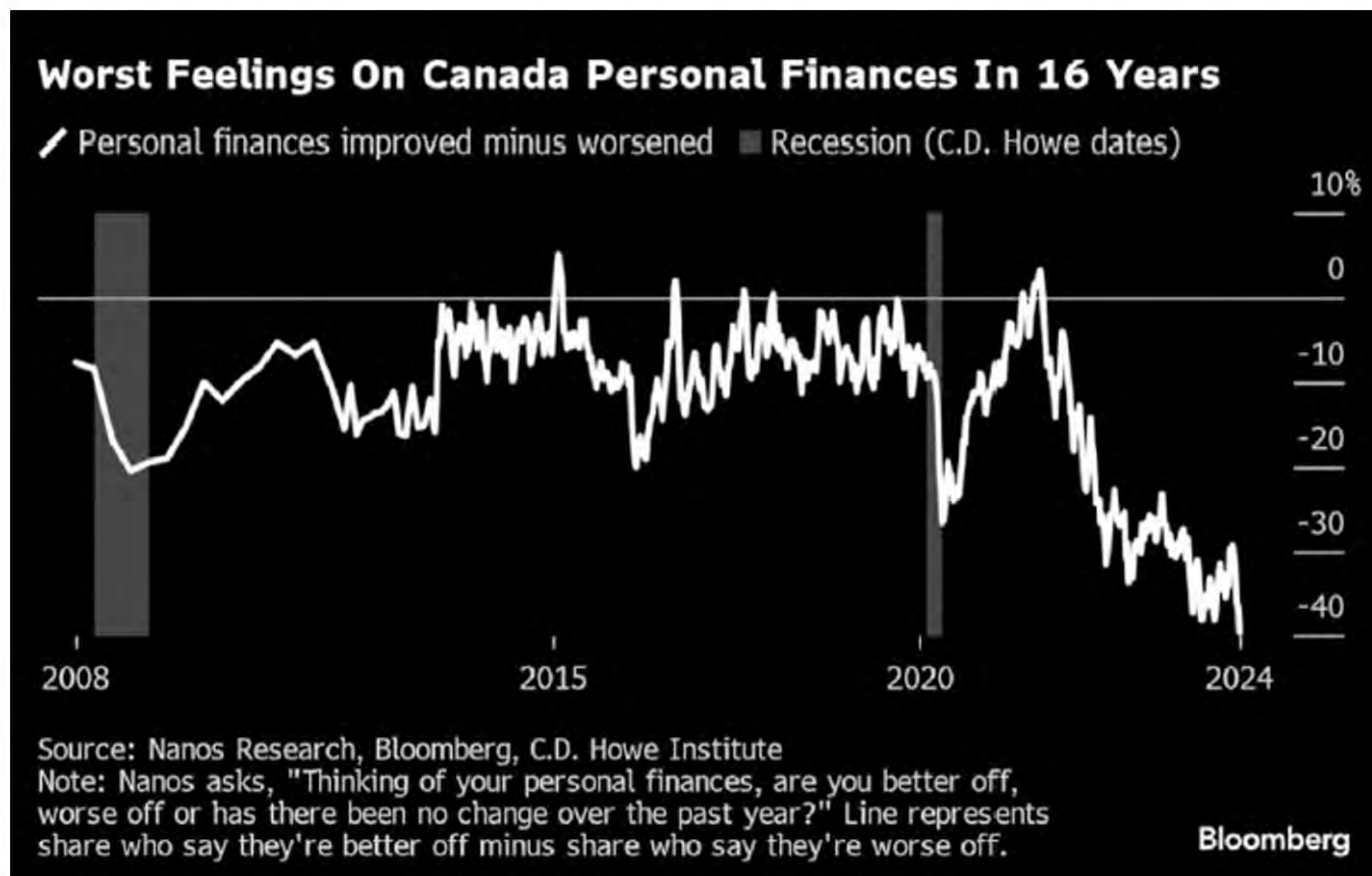
On the economic data front, Canadian GDP rose 0.2% m/m in February, well below the preliminary estimates of a 0.4% advance. The early read for March from Stats Canada pointed to a flat monthly reading which puts Q1 on track for 0.6% growth. If that holds, it would mean a sixth consecutive quarterly decline and a 2% annual contraction in per capita GDP at the same time that the US has been a string of seven consecutive expansions:



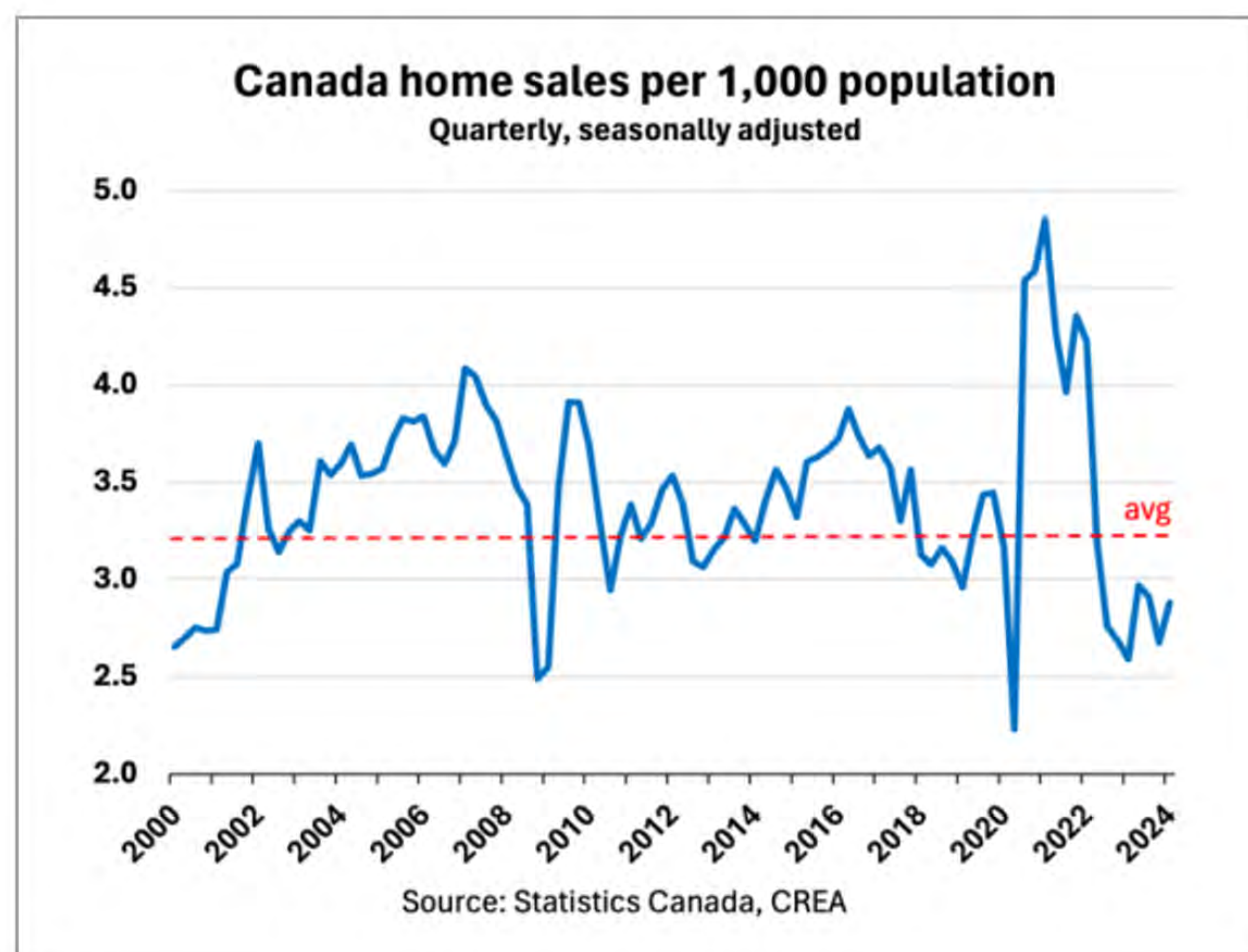
Meanwhile, consumer sentiment took a nose dive in April, with the Conference Board's index plunging 8.5 points to sit at levels that have always pointed to recession in the past:



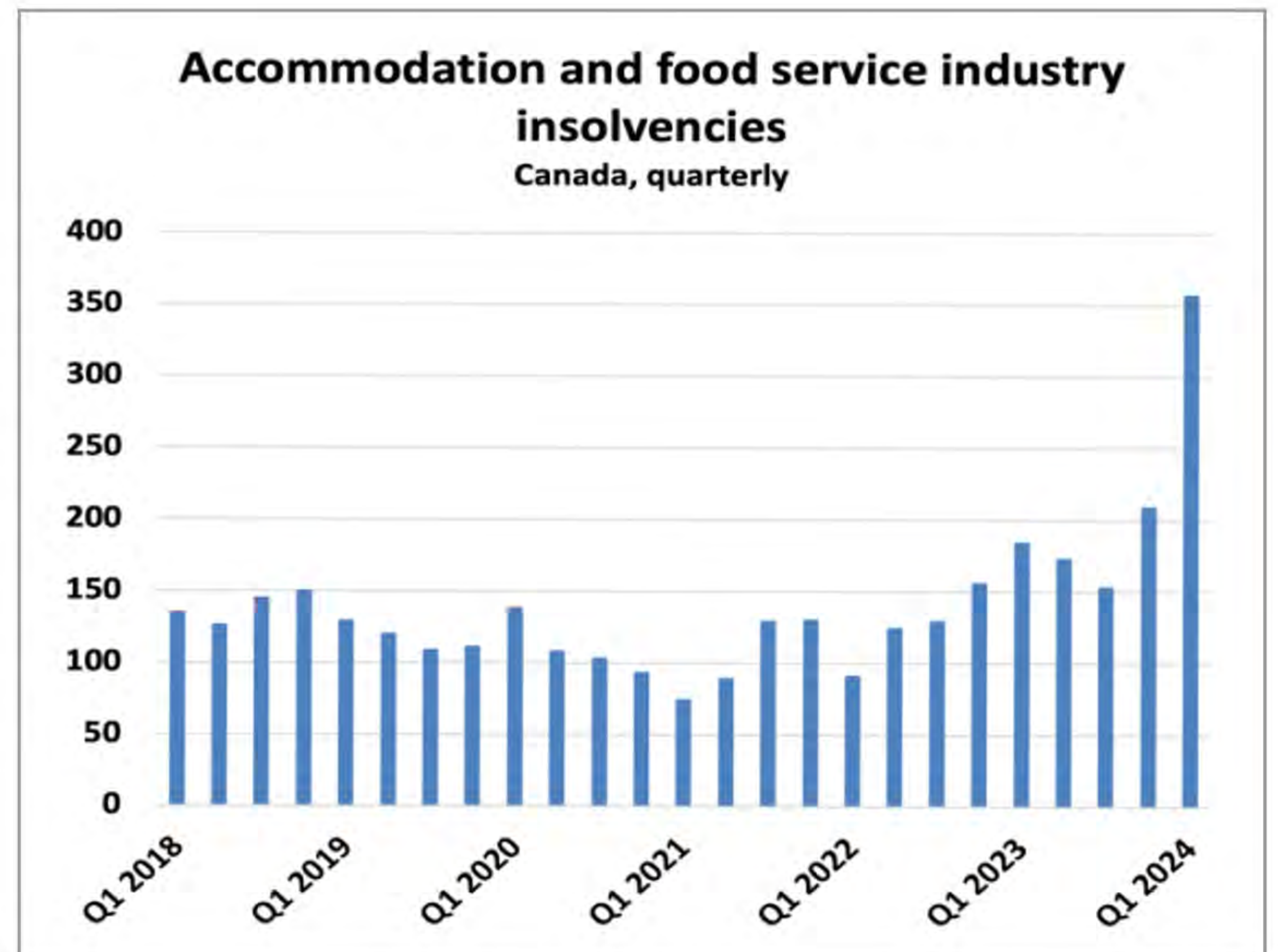
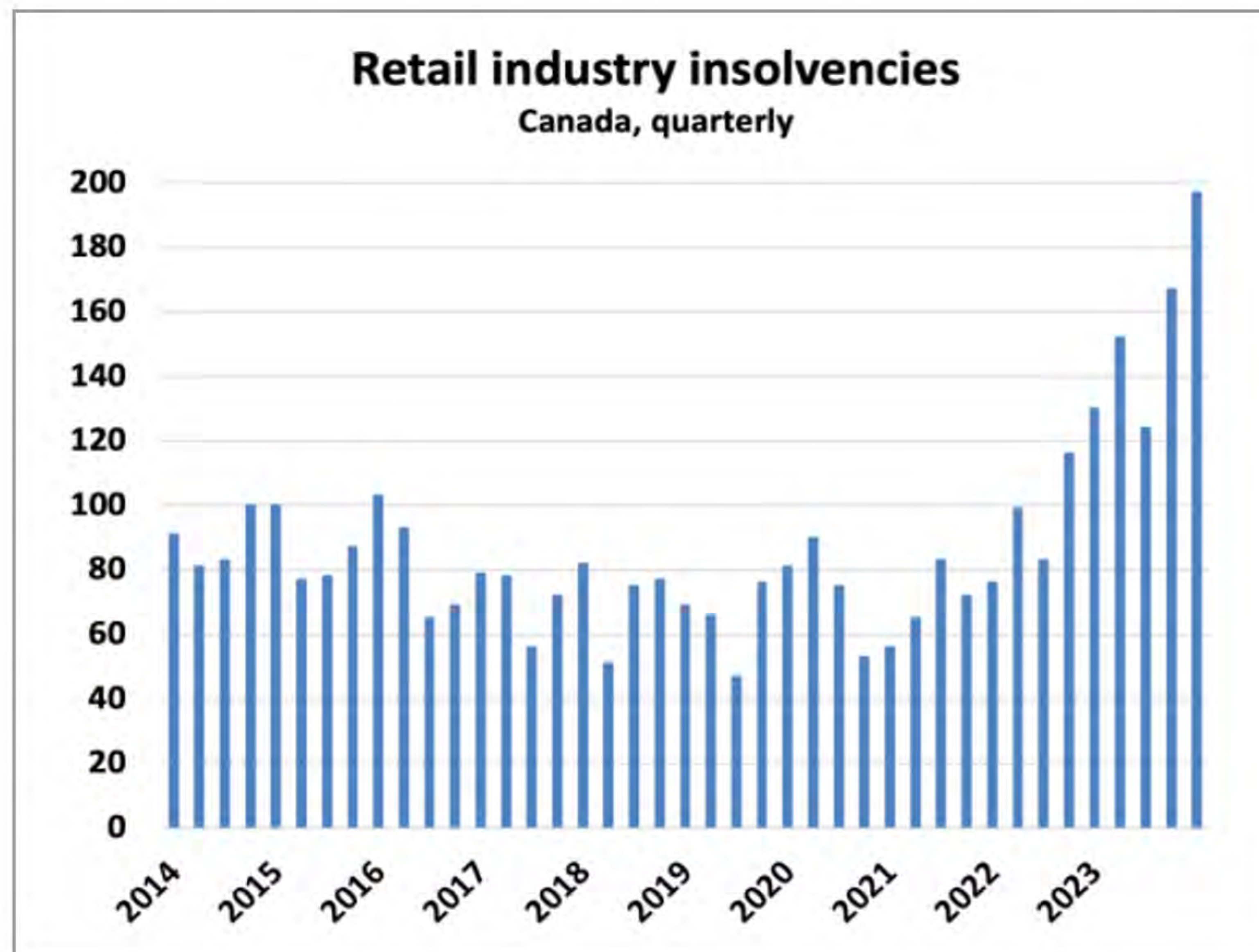
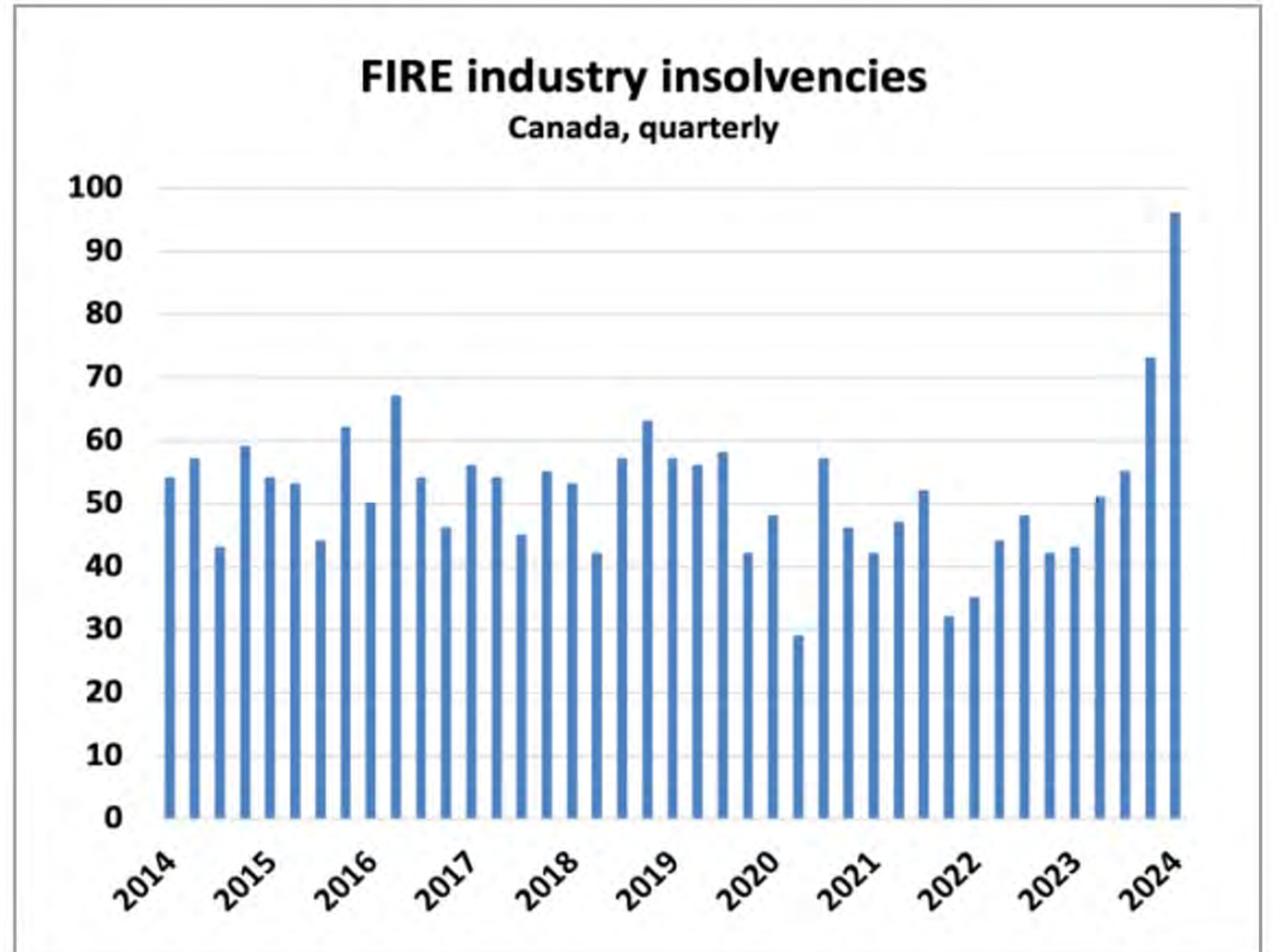
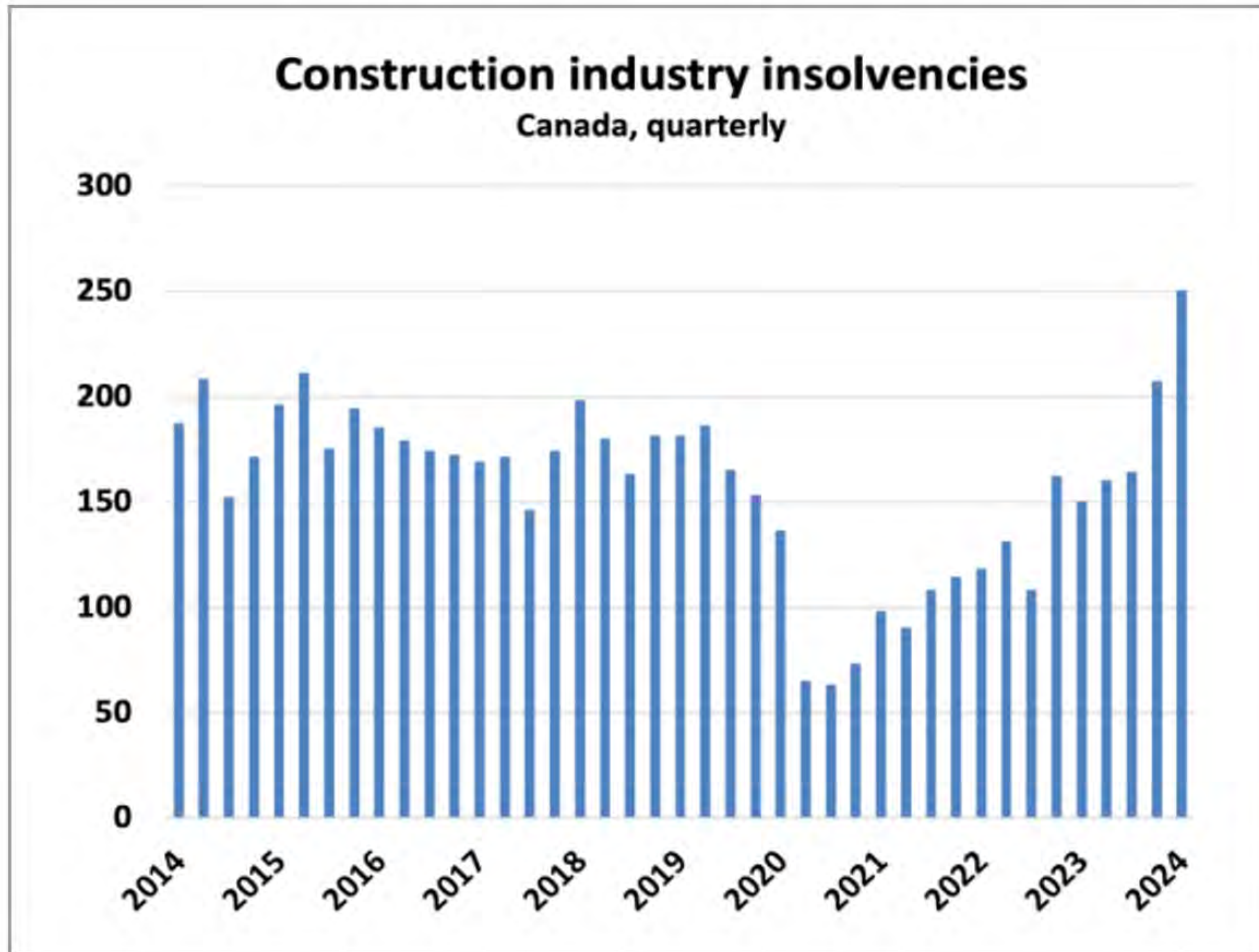
Confirming this trend, the Bloomberg Nanos index on personal finances fell to 16-year lows this week:



Admittedly, I'm a bit stumped as to how to square that with a real estate outlook index that is the highest since rate hikes started in 2022. Declining personal finances index and rising real estate optimism is a bit of a head-scratcher. Perhaps the easiest explanation is simply that sales per capita have been so low for so long, that home sales will likely bounce even as the economy softens:



We also learned that business insolvencies were up 81% y/y in Q1 with heavy filings across interest rate-sensitive sectors:



In spite of all of that, we're now looking at market odds of a June cut at just 35% (it was 80% just 8 weeks ago) with a 90% chance of a cut in July.

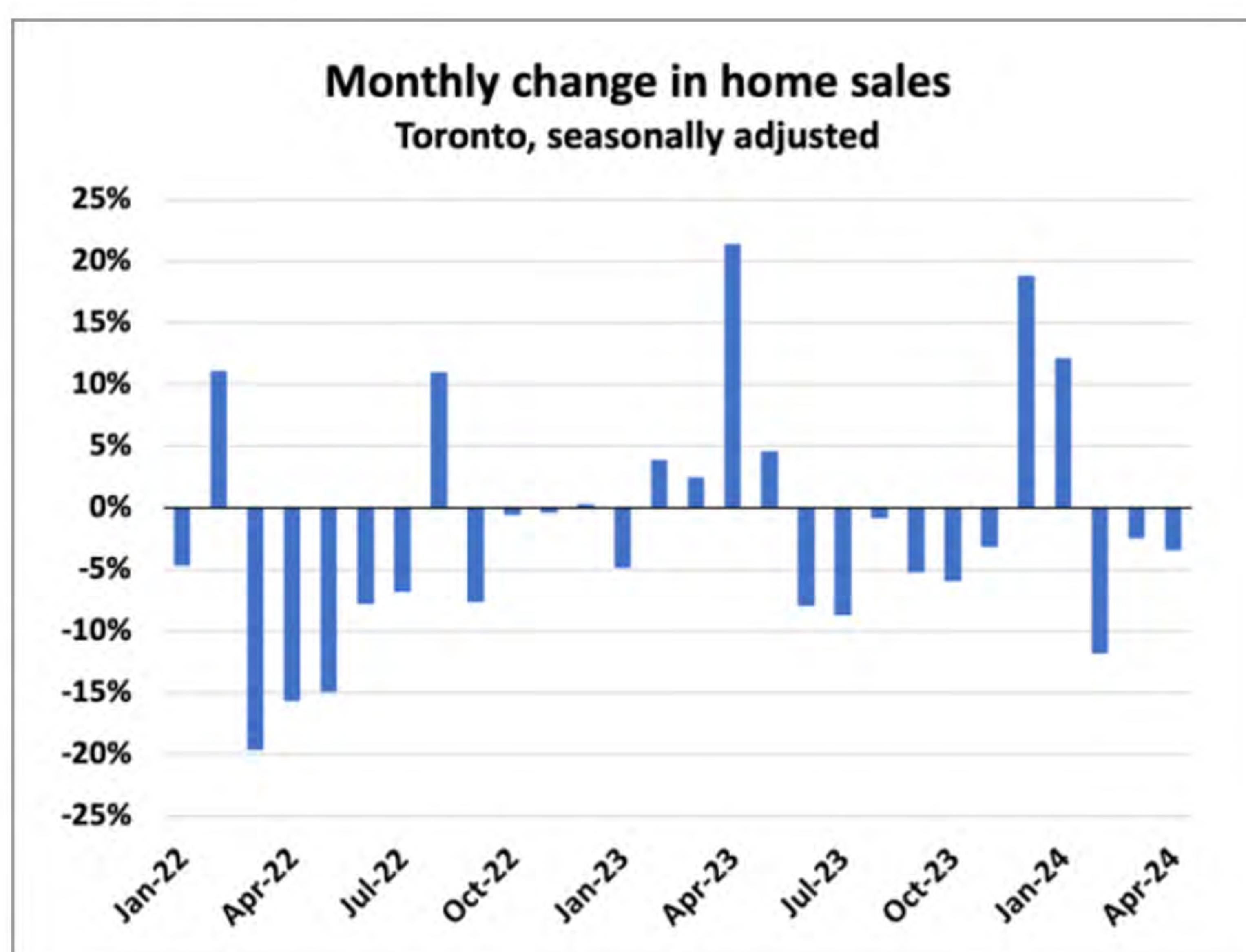
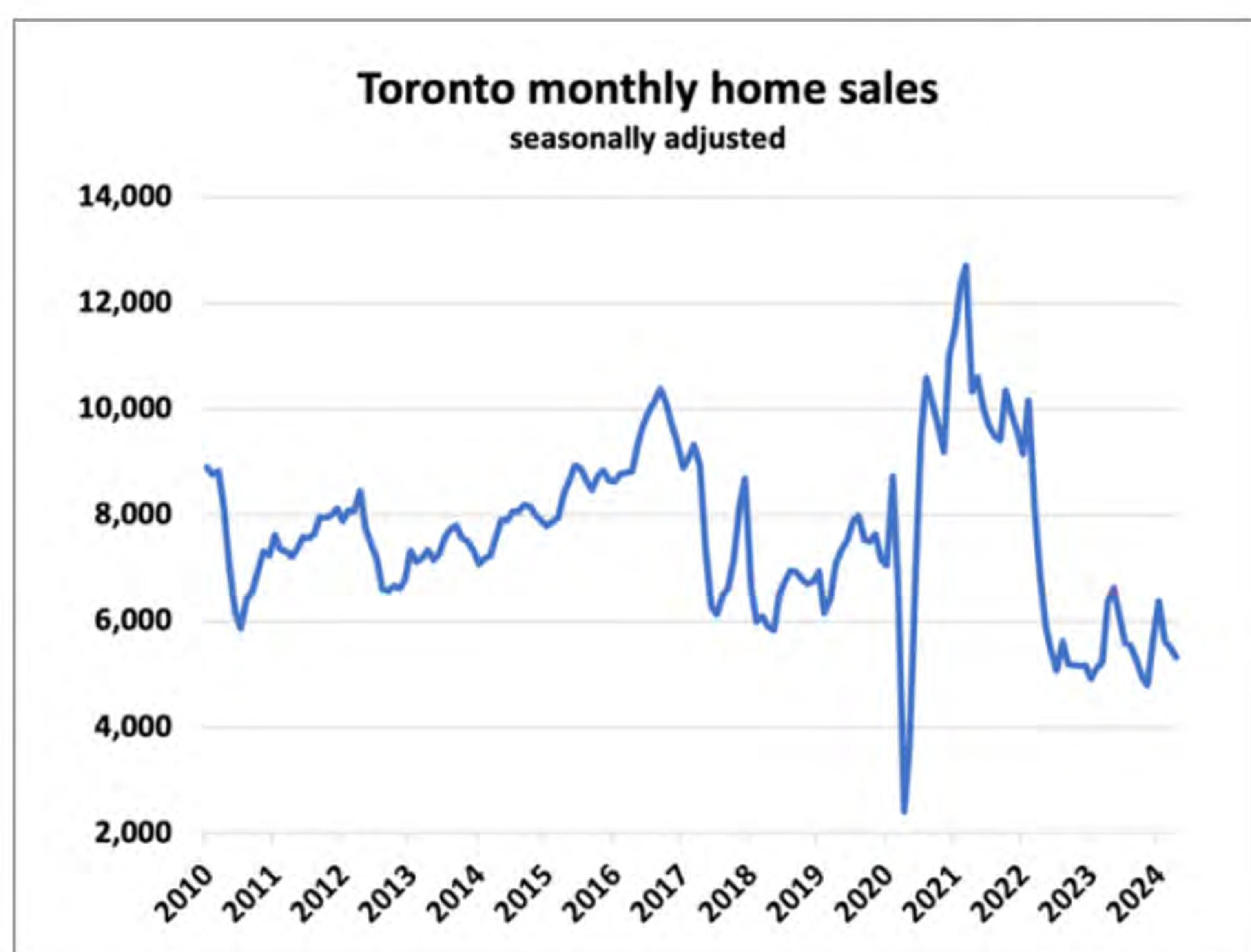
That's frustrating, and it obviously makes it a little less likely that my prediction of 100-150bps of cuts this year will materialize, but as I've maintained for a while now, I think the macro data will turn sharply this summer... and THAT's when the Bank of Canada will have their "oh sh*t" moment. For the time being, we wait and endure these high rates for a little while longer.

2) Major inventory build in Toronto

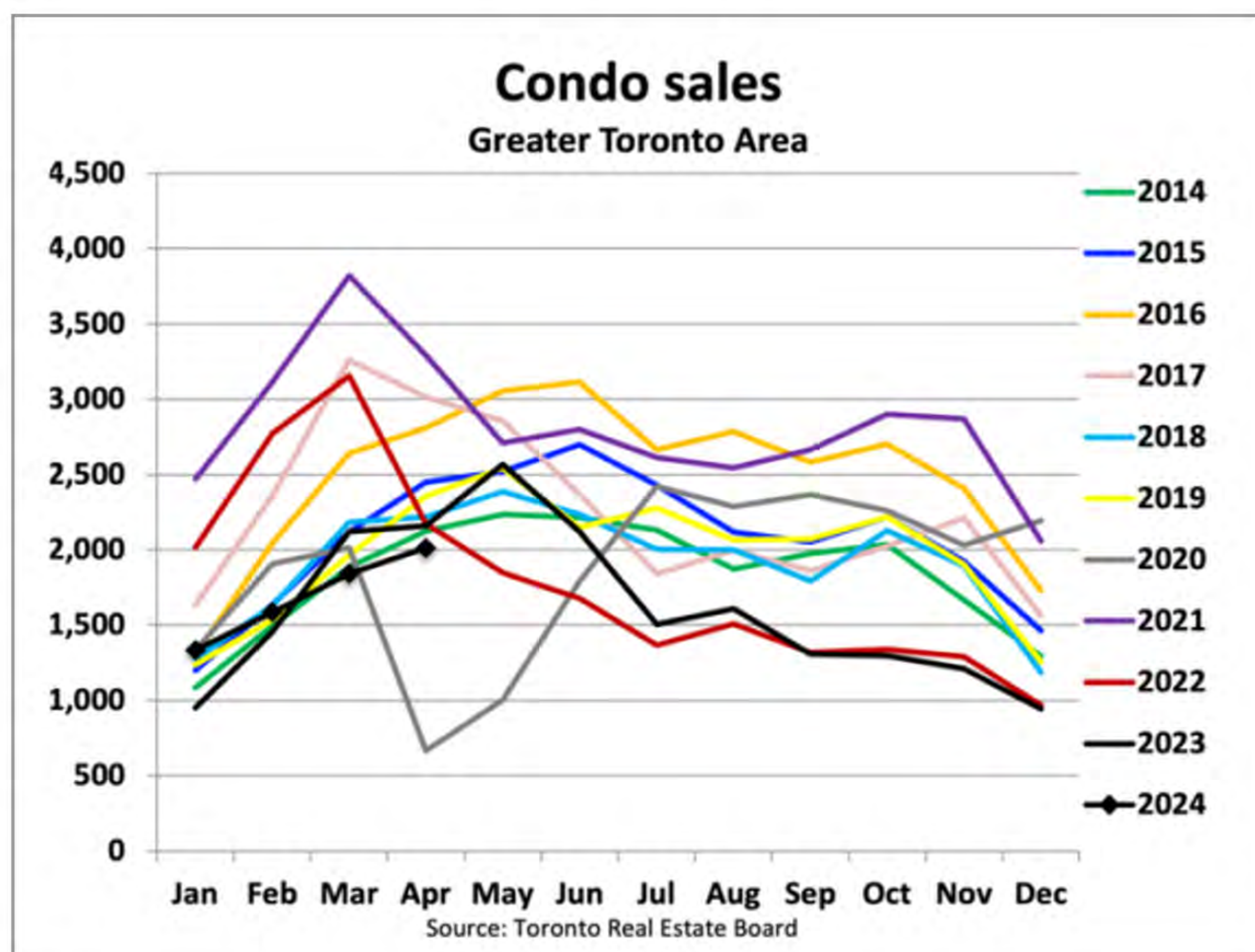
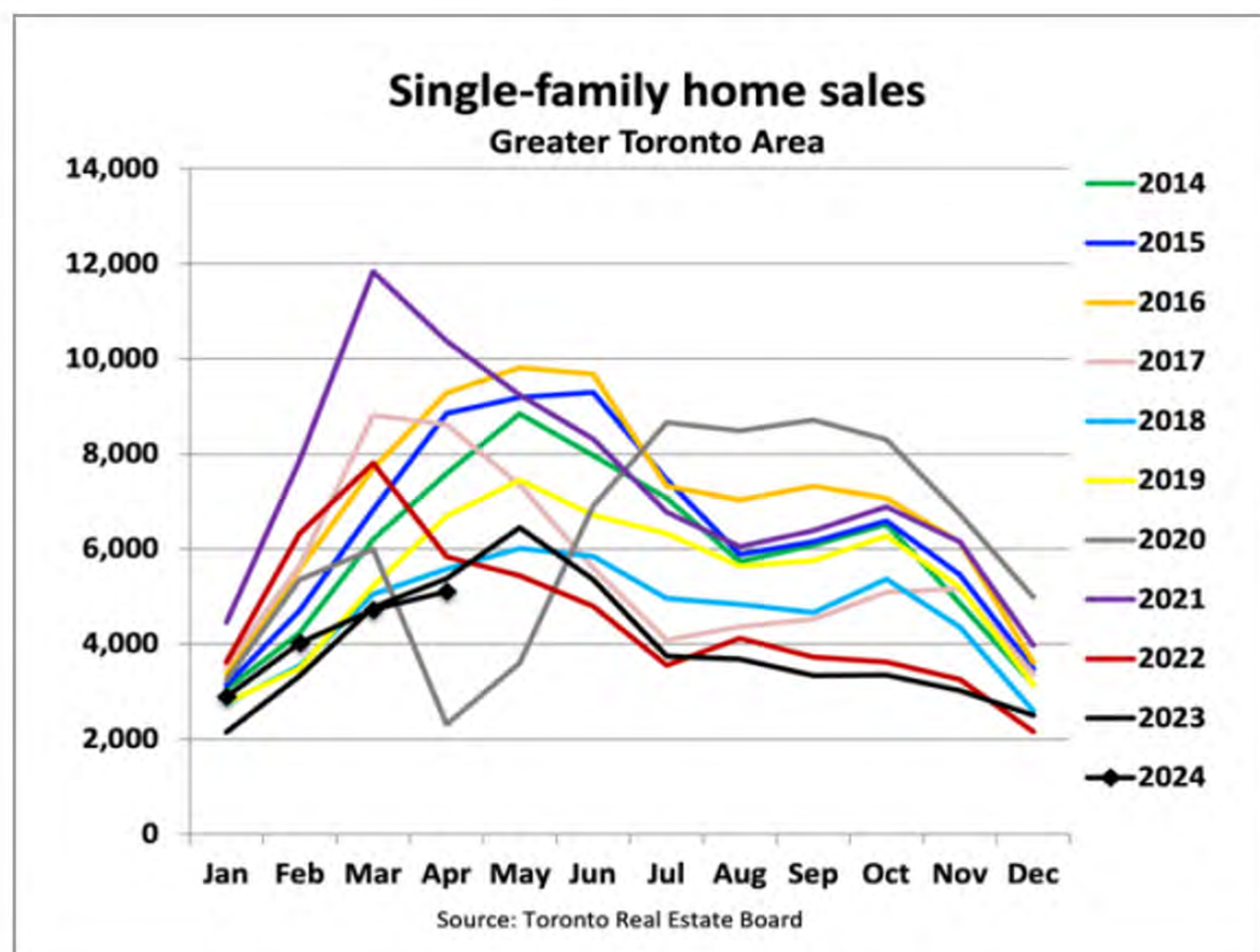
Another disappointing month for sales

Seasonally adjusted home sales across the GTA fell 3.4% m/m in April (-5.8% y/y) and there were downward revisions to the prior 5 months as well. March was revised from -1.1% m/m to -2.4% m/m.

Sales have now fallen 17% over the past 3 months, the steepest decline since mid-2022. Not exactly the spring selling season I had envisioned:

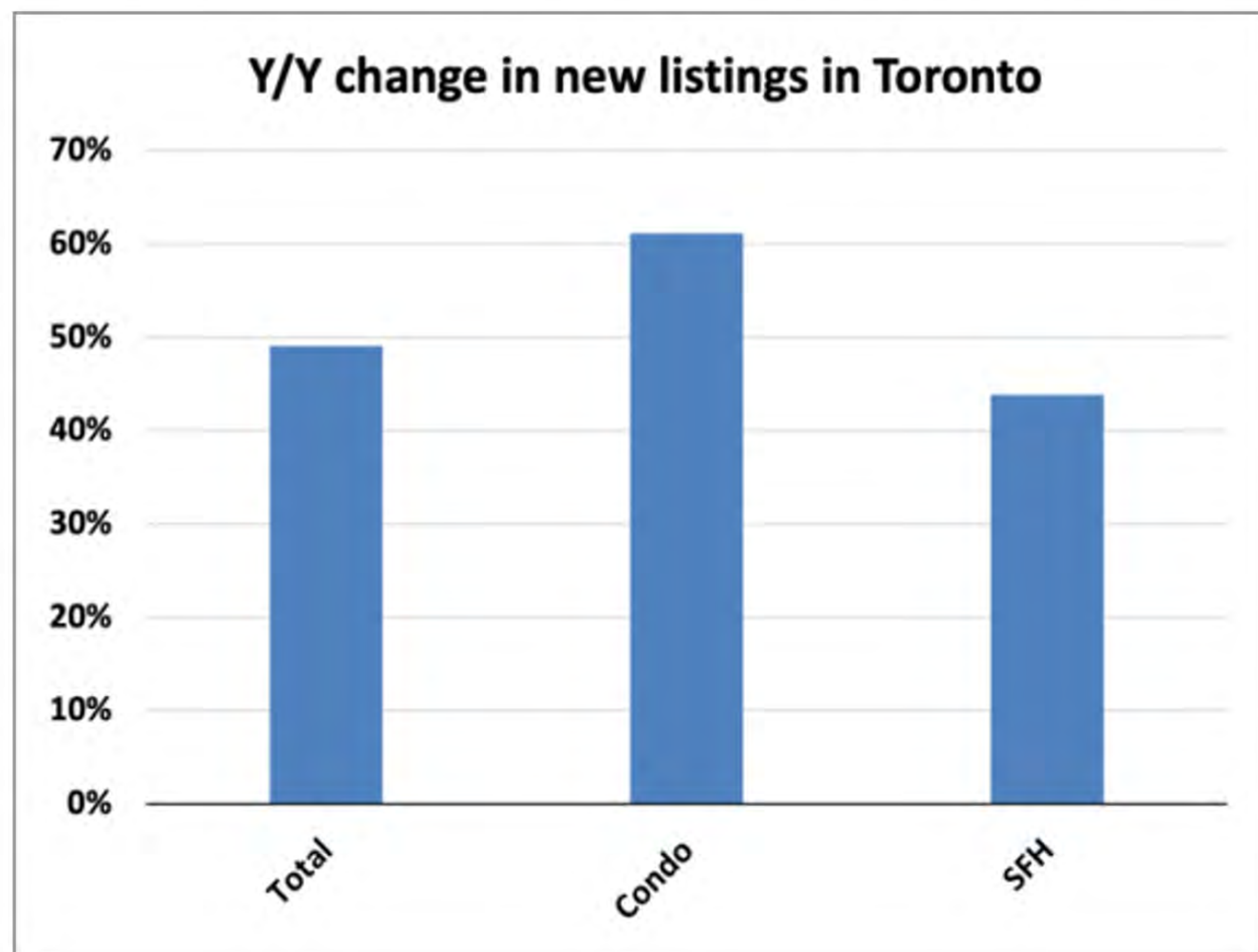
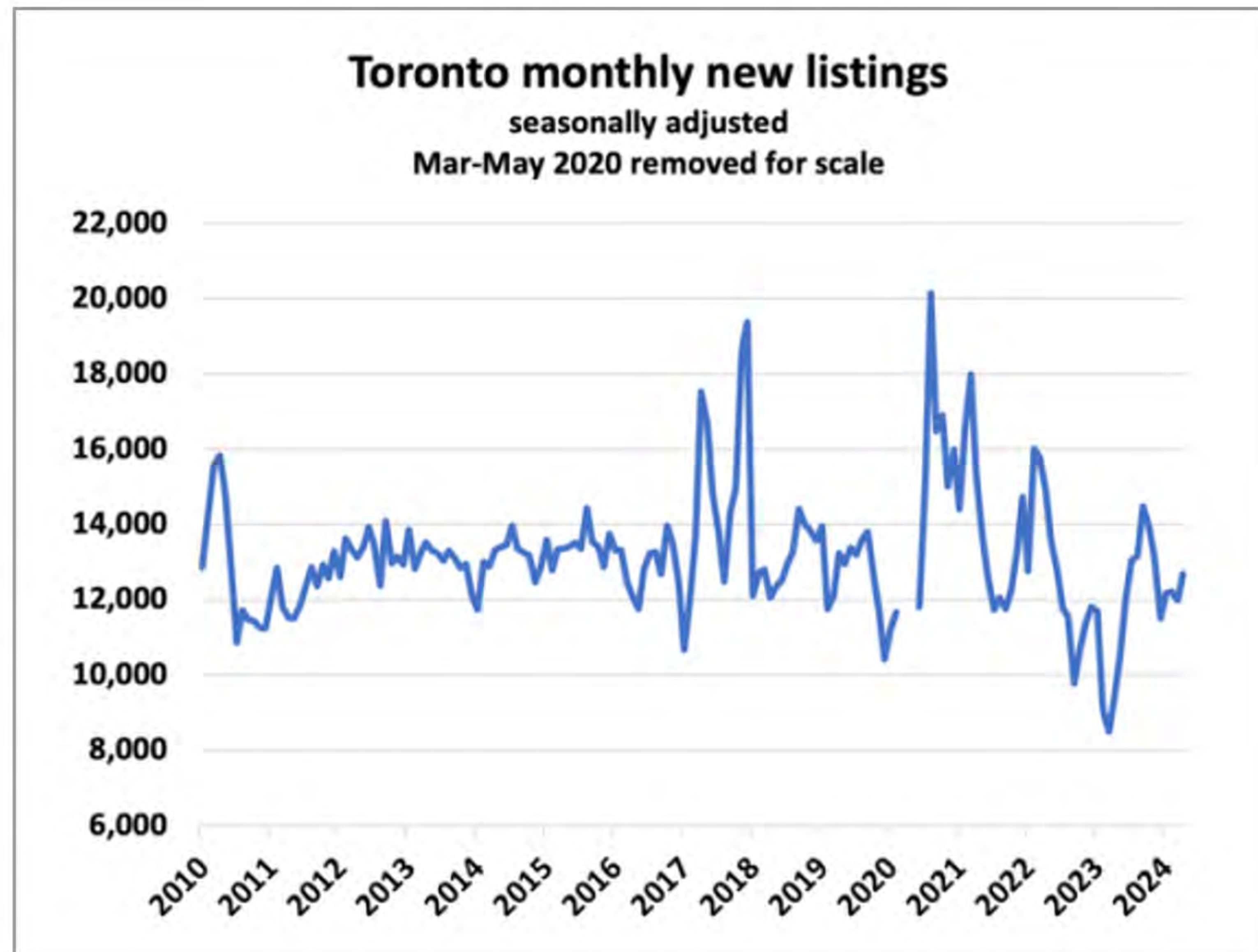


Outside of April 2020, sales this month were at 15-year lows across both the single-family and condo segments:

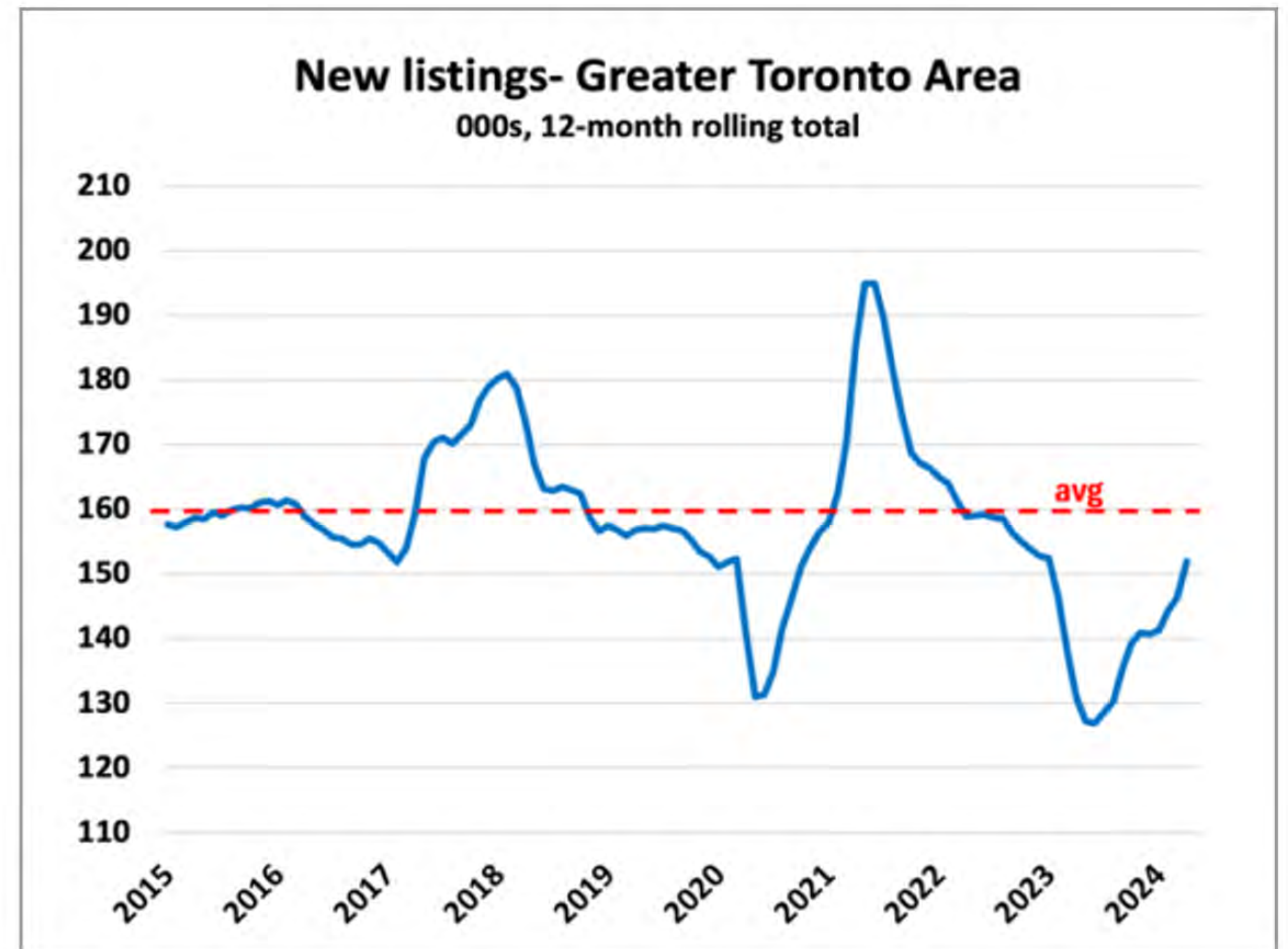


New listings surge nearly 50% y/y

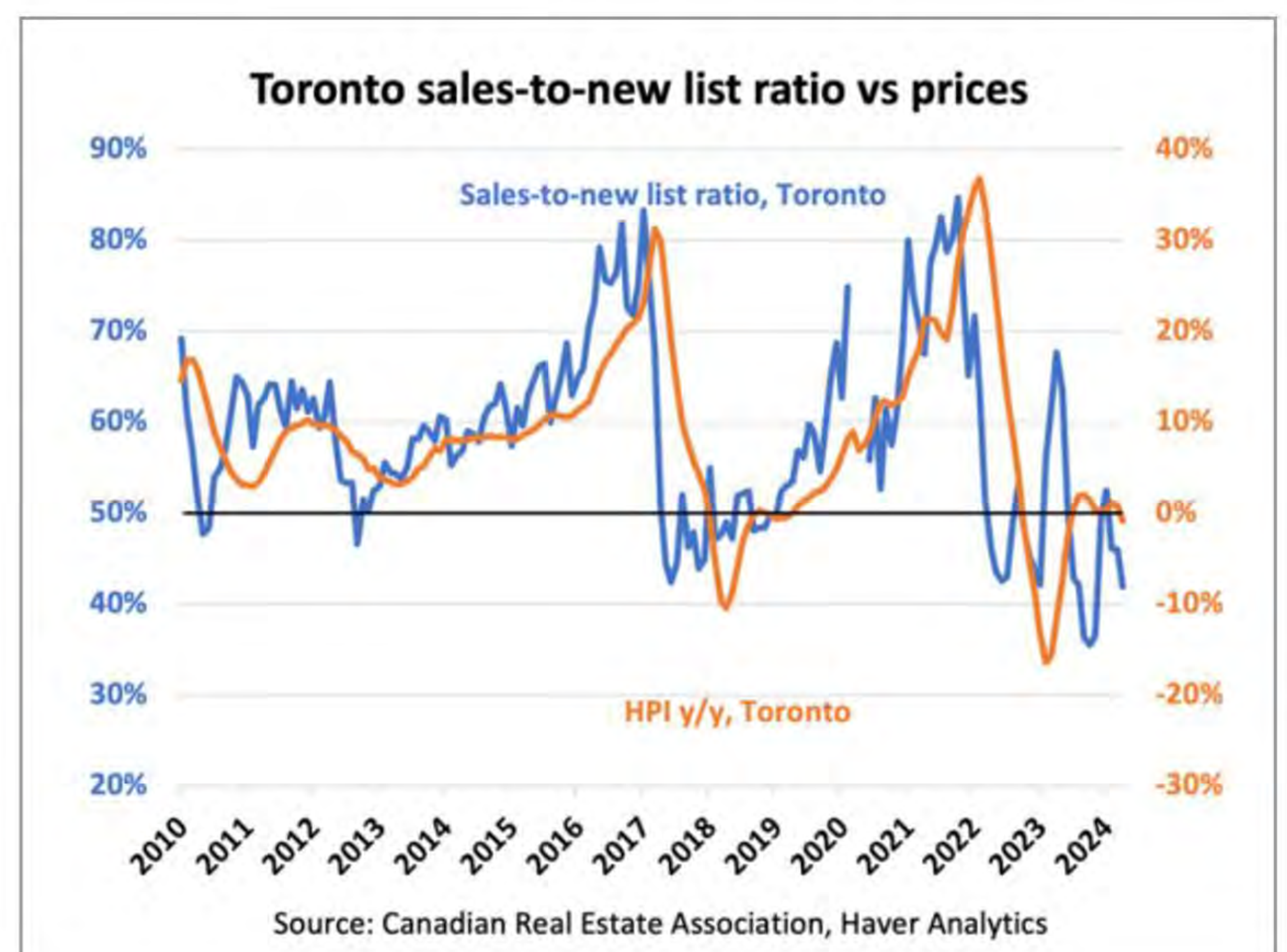
New listings in Toronto jumped 5.9% m/m on a seasonally adjusted basis with upward revisions to prior months to boot. Relative to last April, listings were up 49% y/y.



Still, that leaves listings slightly below normal levels over the past year. Given their strong mean-reverting tendencies, we should see new listings come in very high right through the summer and potentially beyond:

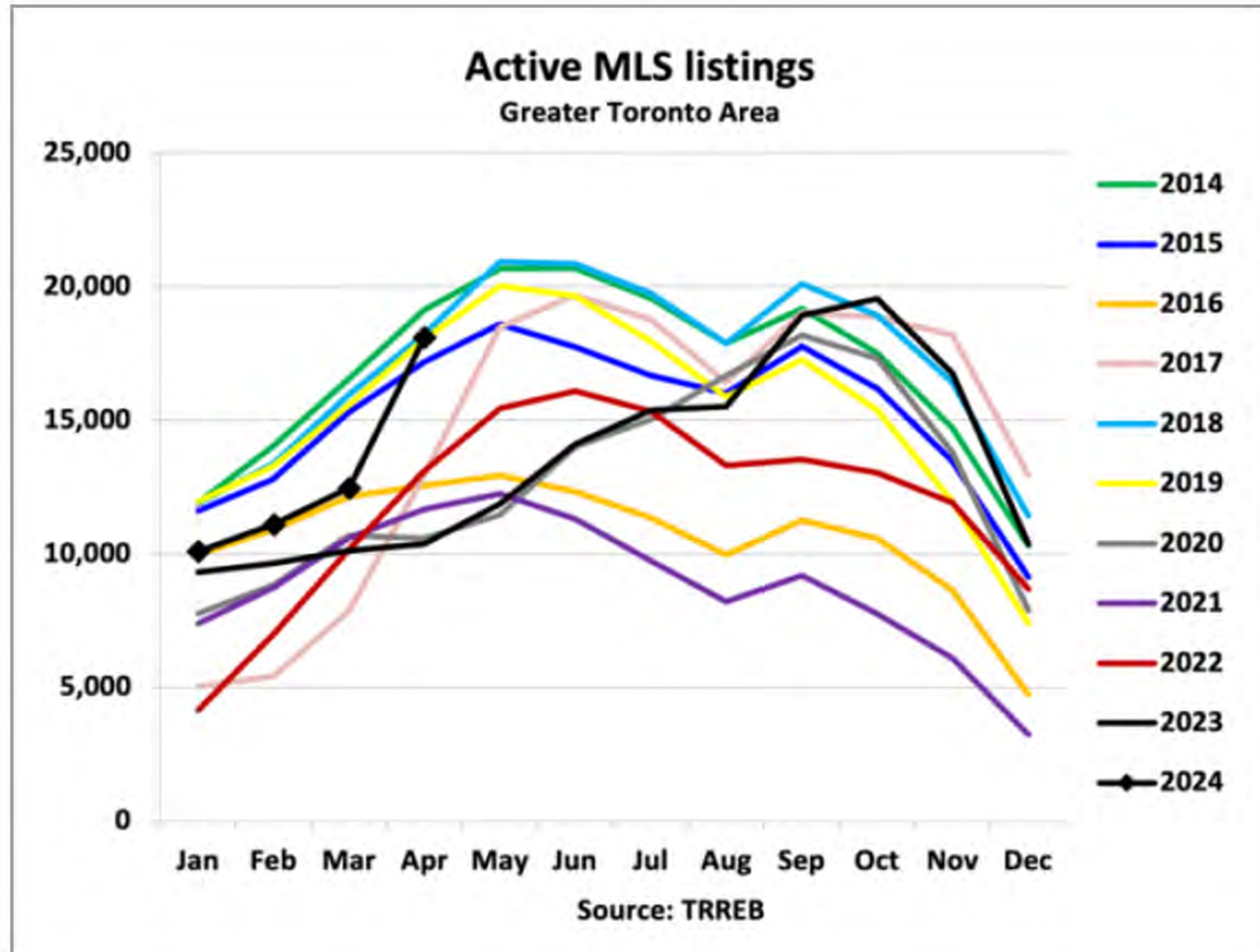


The sales-to-new listings ratio slid to 42% in April, a level that has always predicted declining prices. If it holds here, we should expect prices to roll back over before the summer:

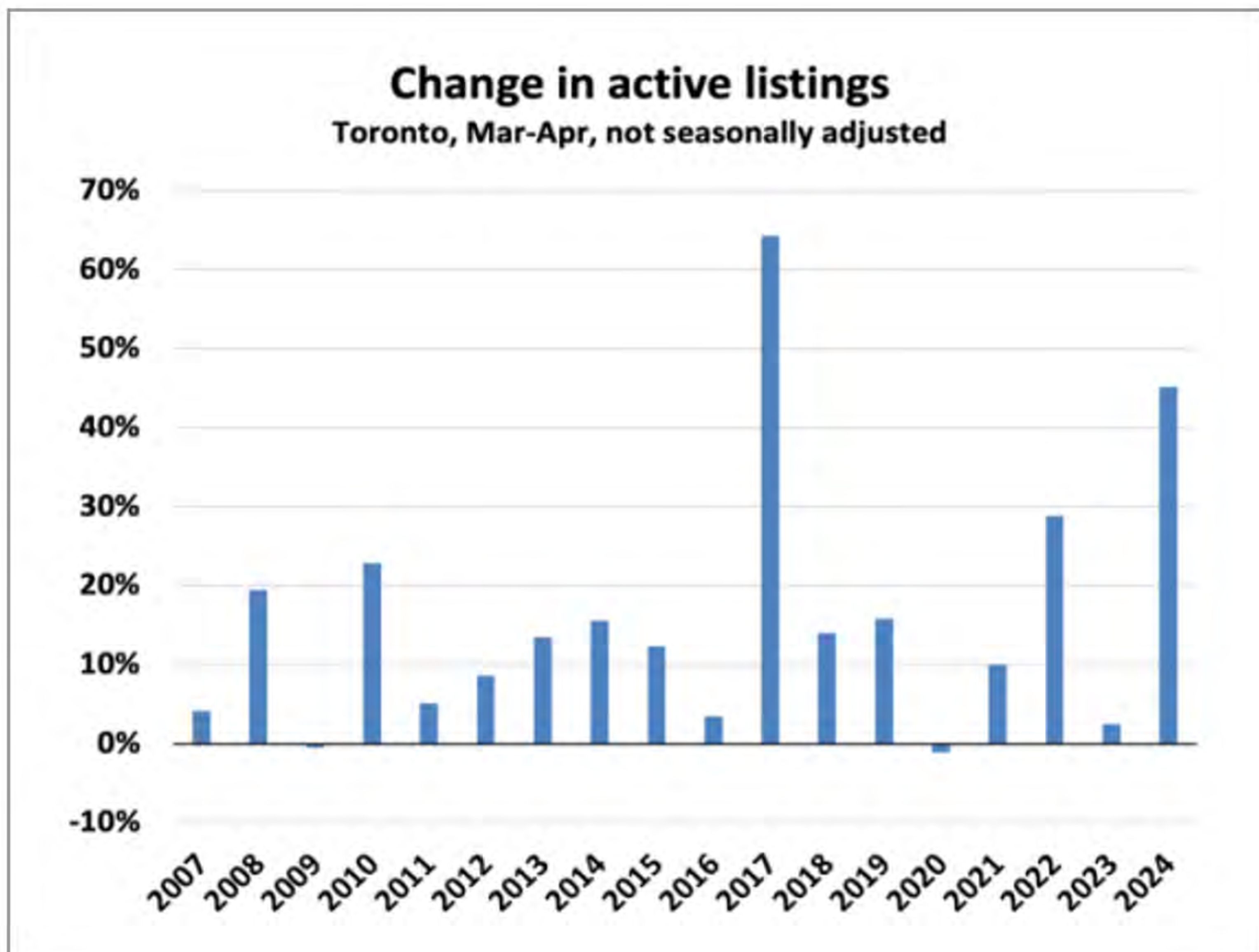
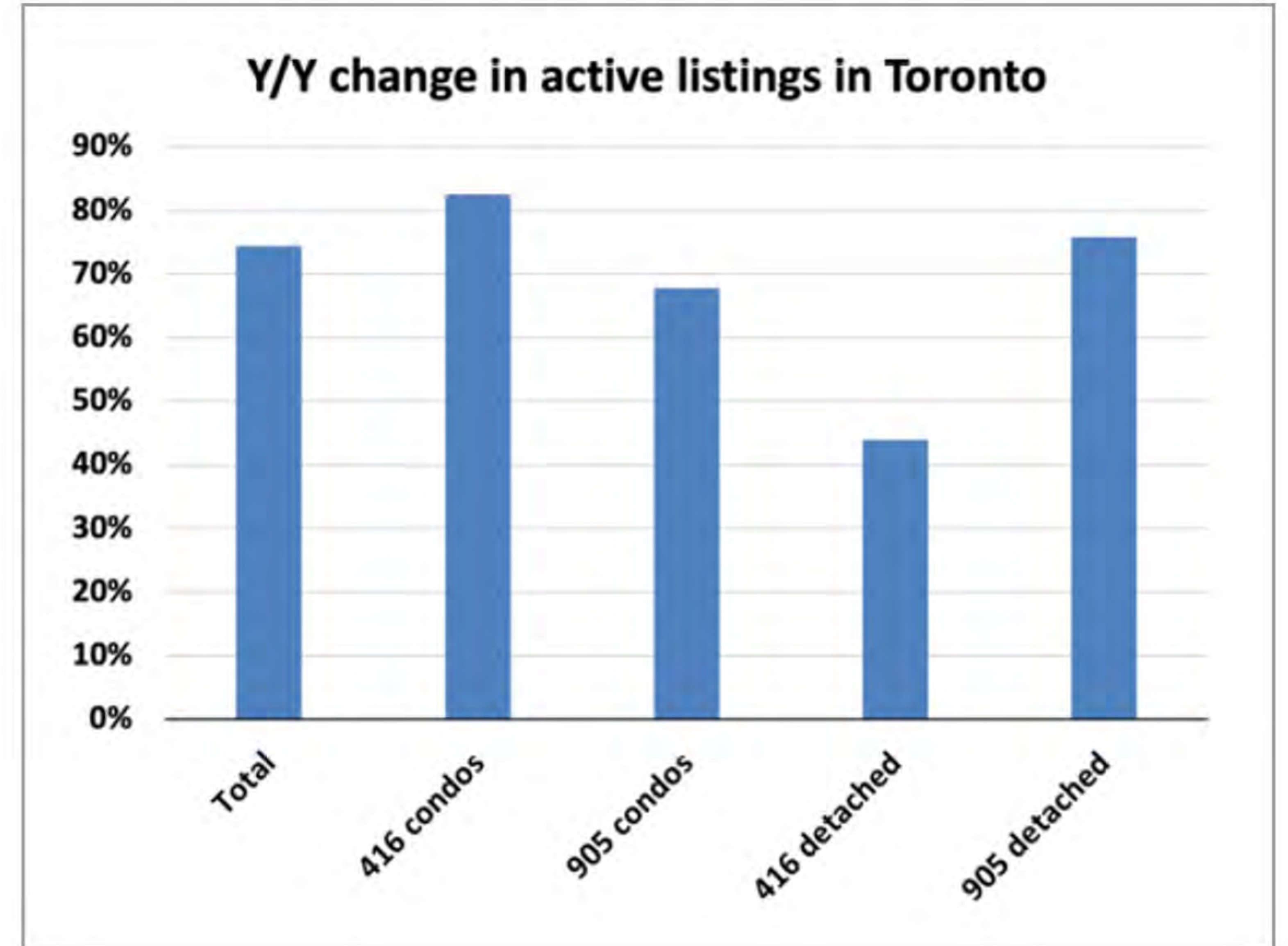


Major inventory build

Active listings surged 45% in one MONTH, the highest rate of growth for any April since the foreign buyer tax was implemented in 2017.

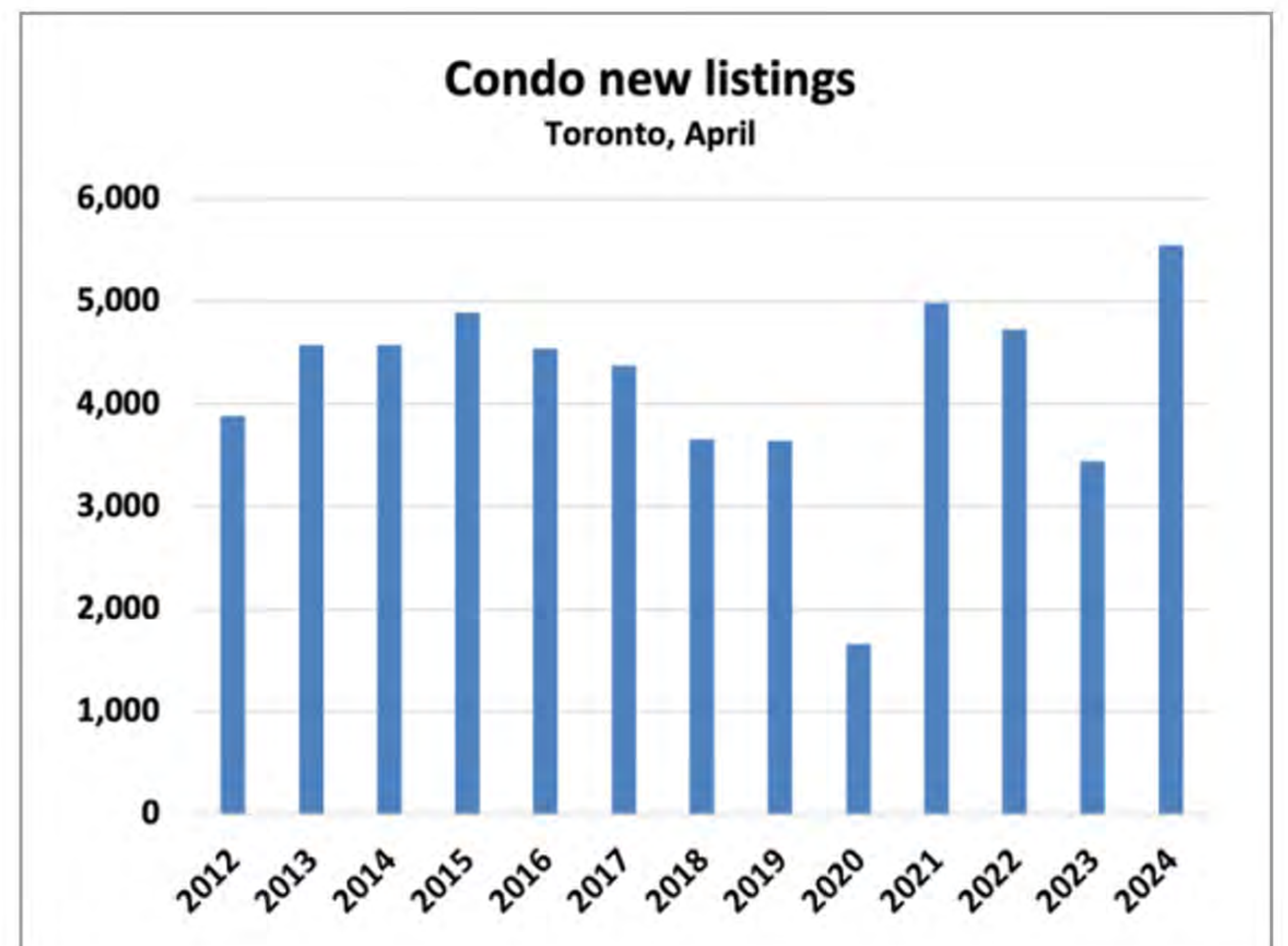


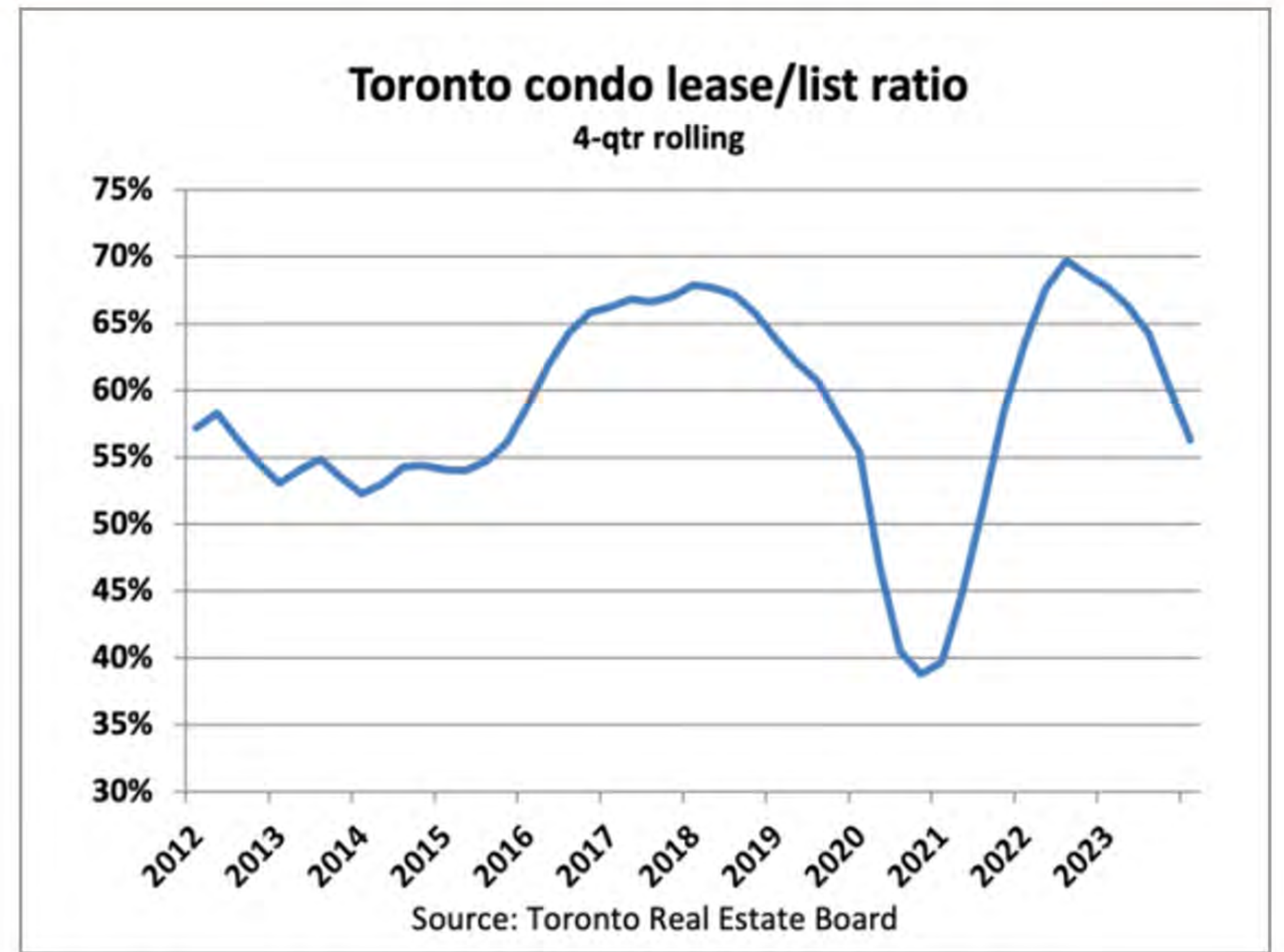
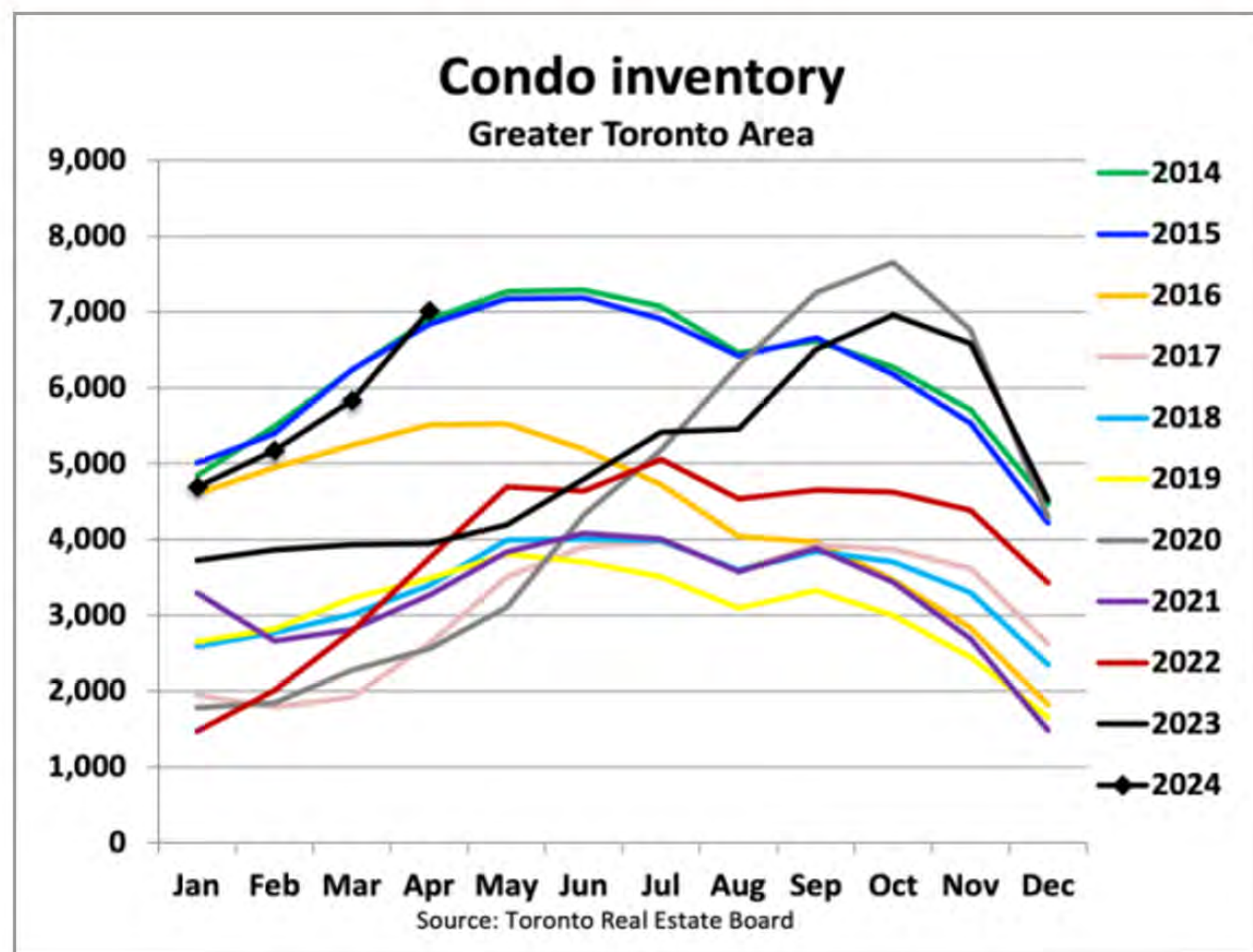
That left active inventory up 75% compared to last year and up over 80% in the 416 condo segment:



Condo concerns mount

There were a record number of both new and active listings in the condo segment in April in a sign that sellers are starting to significantly outnumber buyers:



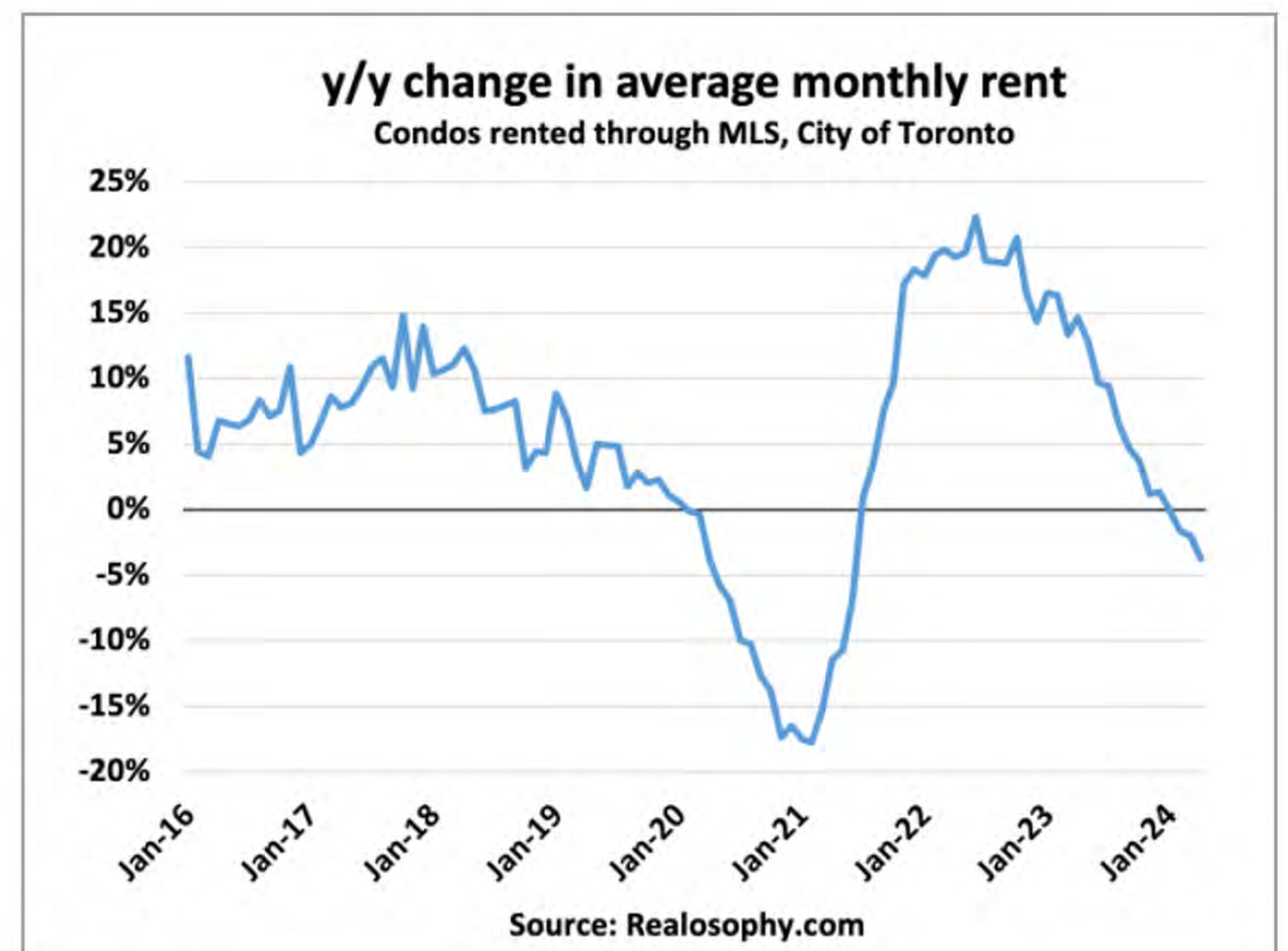
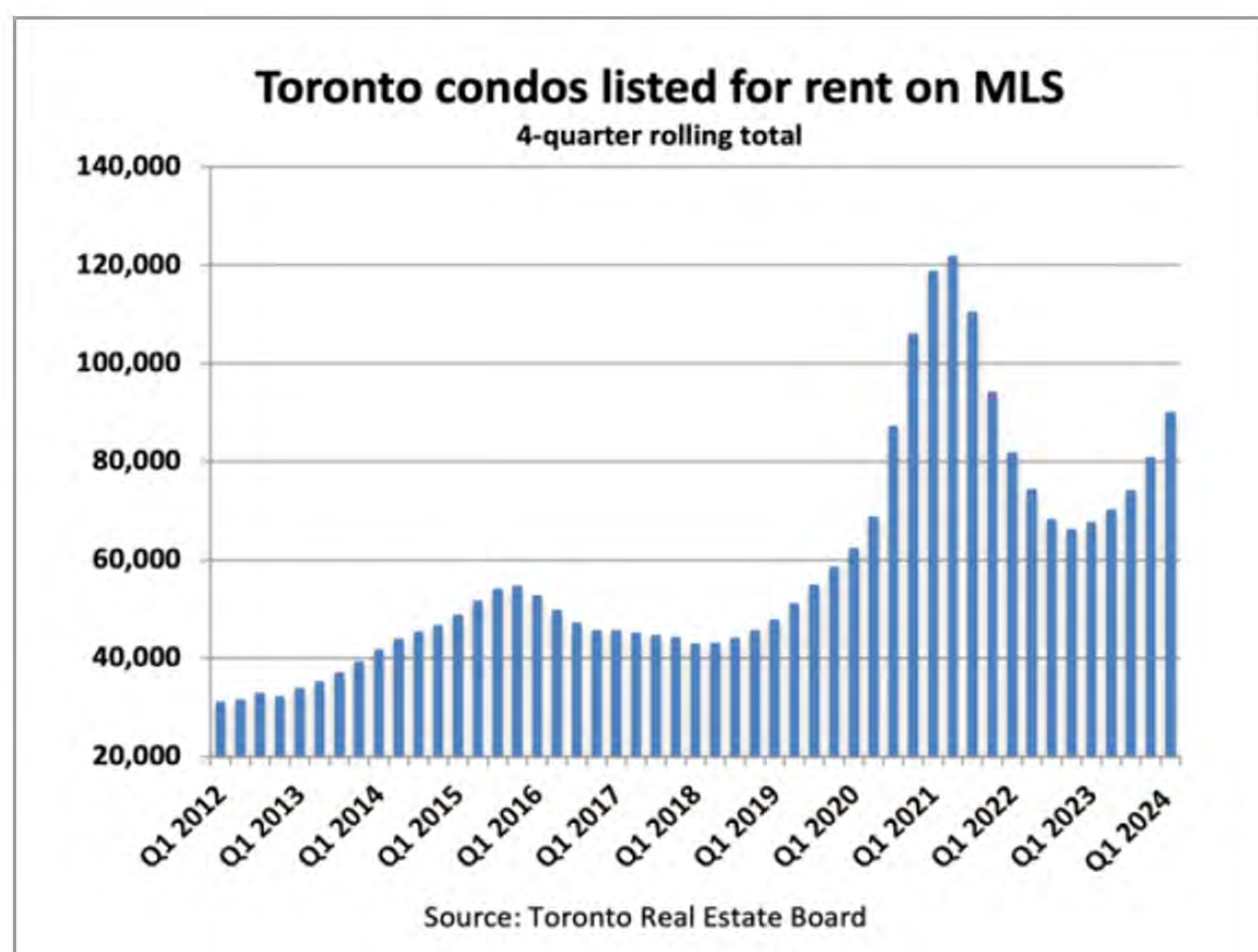


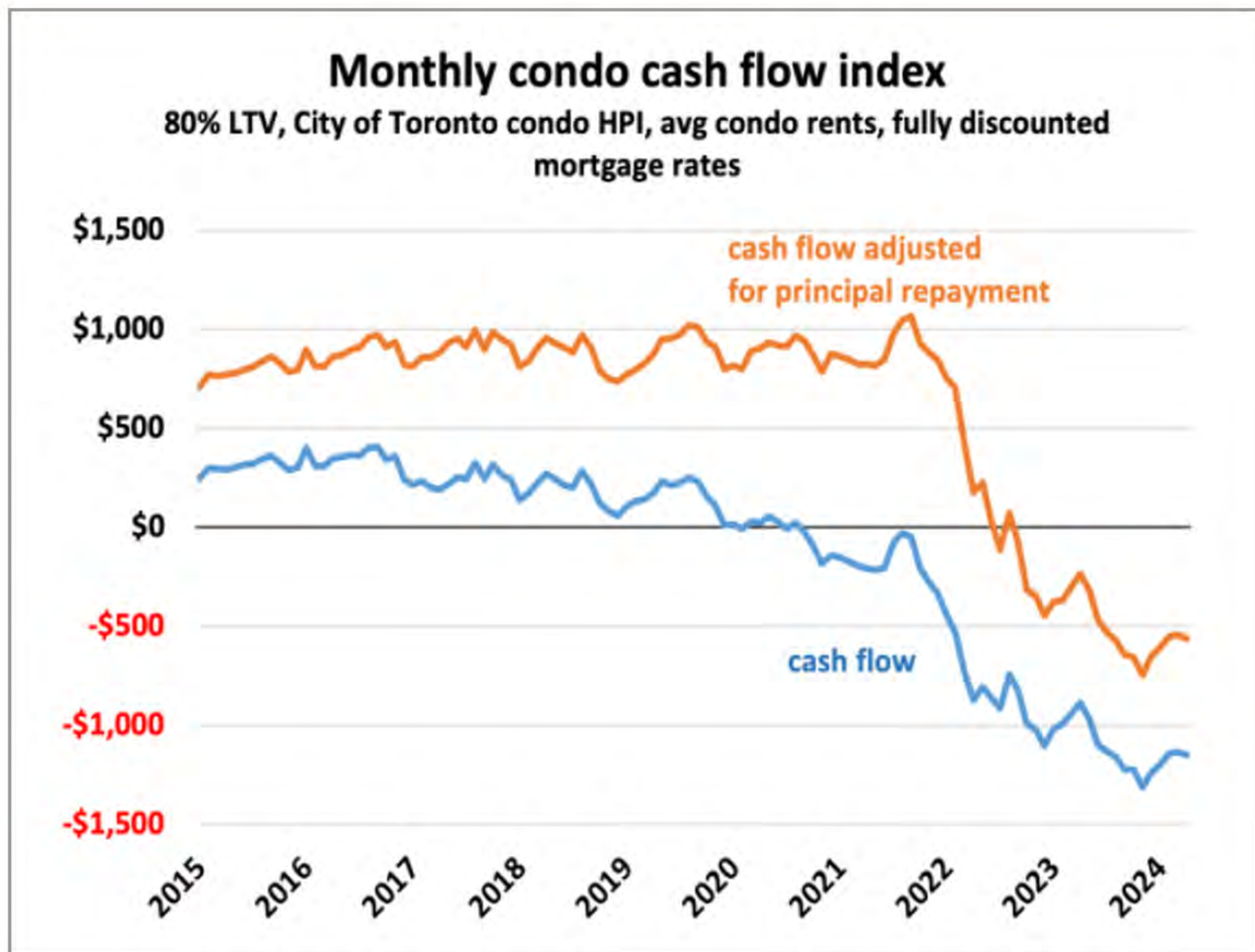
Given that investors are a significant portion of condo demand, we probably won't see a material uptick in sales until the rental market begins to stabilize and cash flows start to become more compelling.

On that front, condo rental listings surged 51% y/y in Q1, dramatically outpacing leasing activity which rose 19% y/y.

We've now seen the most condos listed for rent since the COVID lockdowns, and it's forced the lease/list ratio down to levels not seen since 2021:

Rents are falling across all condo segments and were down 4% y/y in April which continues to weigh on economics for condo purchases:





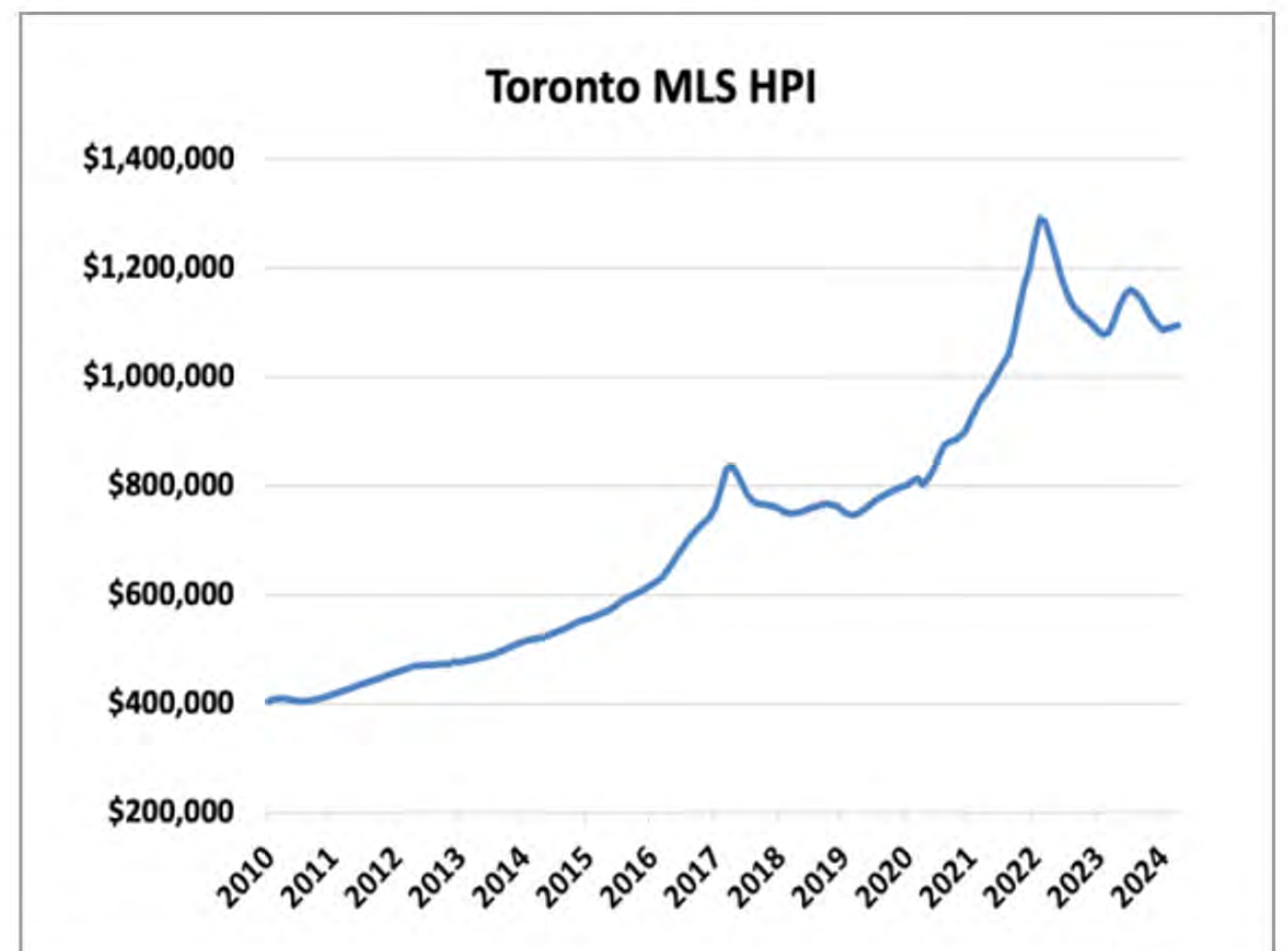
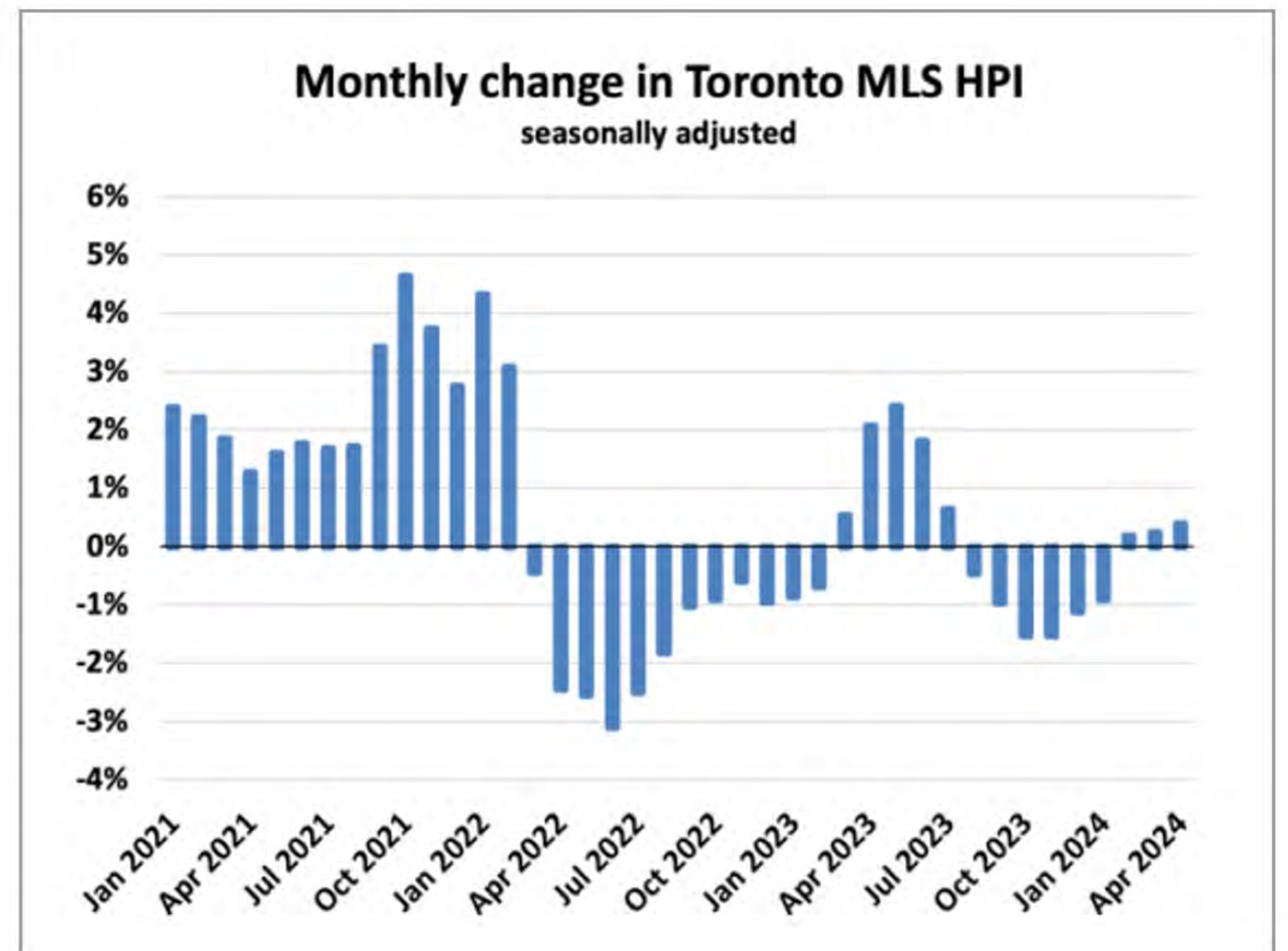
According to condo research firm Urbanation, condo rents have now posted the steepest 6-month decline in at least 15 years¹ outside of COVID:

After reaching a record high of \$4.20 psf (\$2,929 for 698 sf) in Q3-2023, average condo rents in the GTHA have decline 7.4%, the largest six-month decrease recorded during the past 15 years of data tracking outside of the pandemic period in late 2020/early 2021.

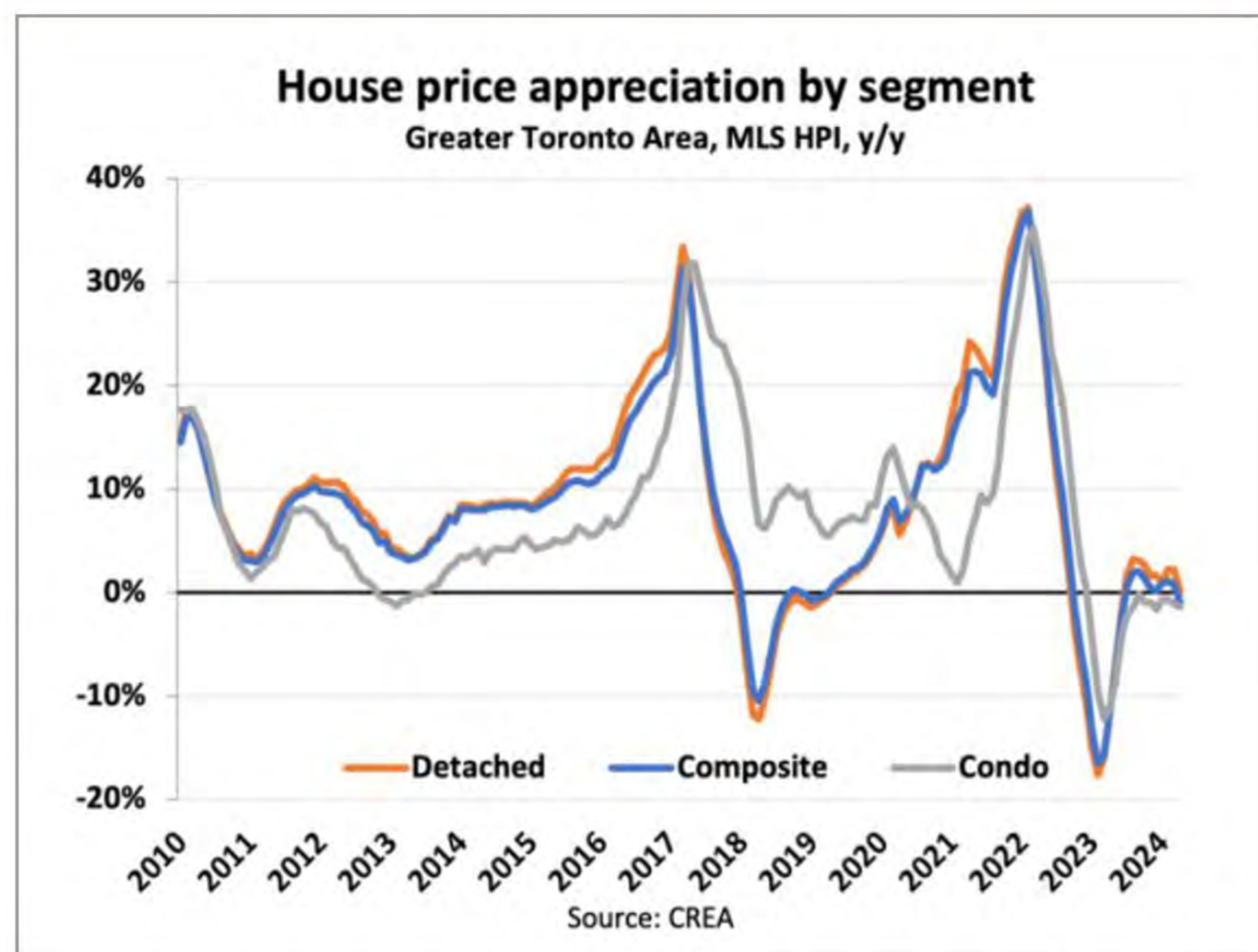
Upward price momentum in April could be a head fake

If there's good here, it's in the price trend. The seasonally adjusted MLS HPI posted a 0.4% monthly gain, the largest since the middle of last year.

The problem is that prices always lag market conditions by a couple months, and what we're seeing here is a reflection of the tightness in the market to start the year when the sales-to-new listings ratio was in the low 50% range. Unless the market tightens significantly, we'll likely see prices start to print negative again within 2 months:



¹ <https://www.urbanation.ca/news/gtha-condo-rents-down-7-past-6-months>

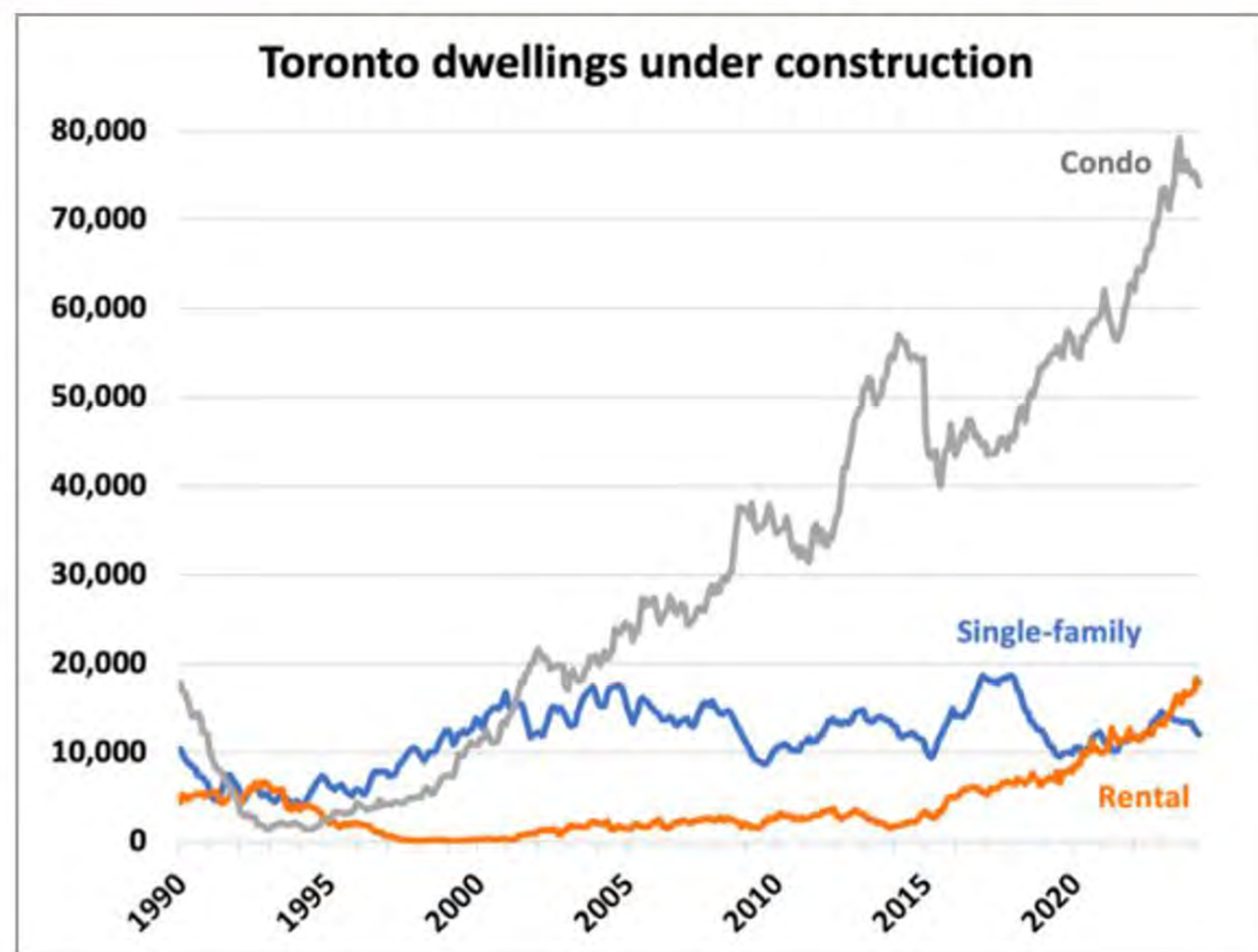


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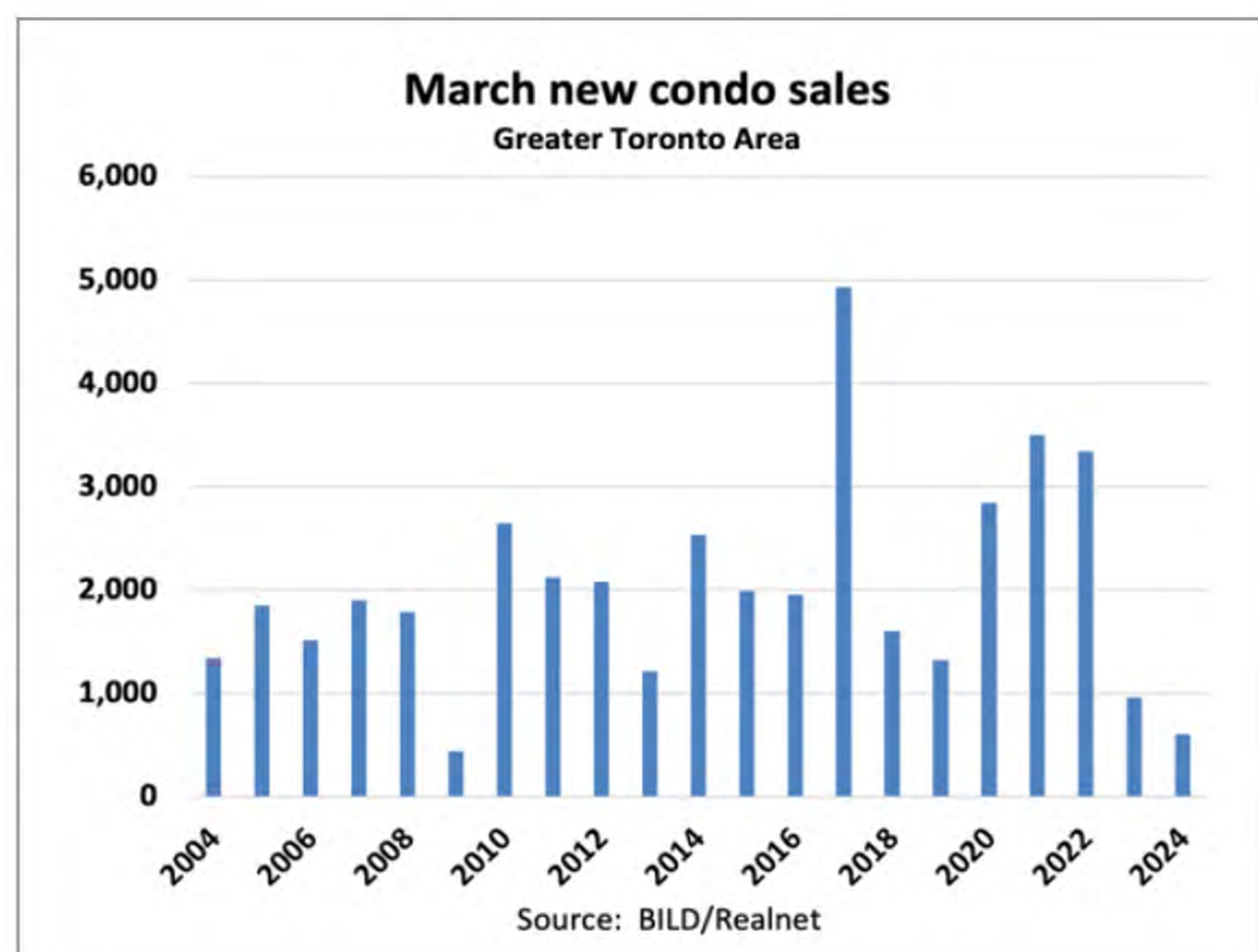
Construction activity slows in March

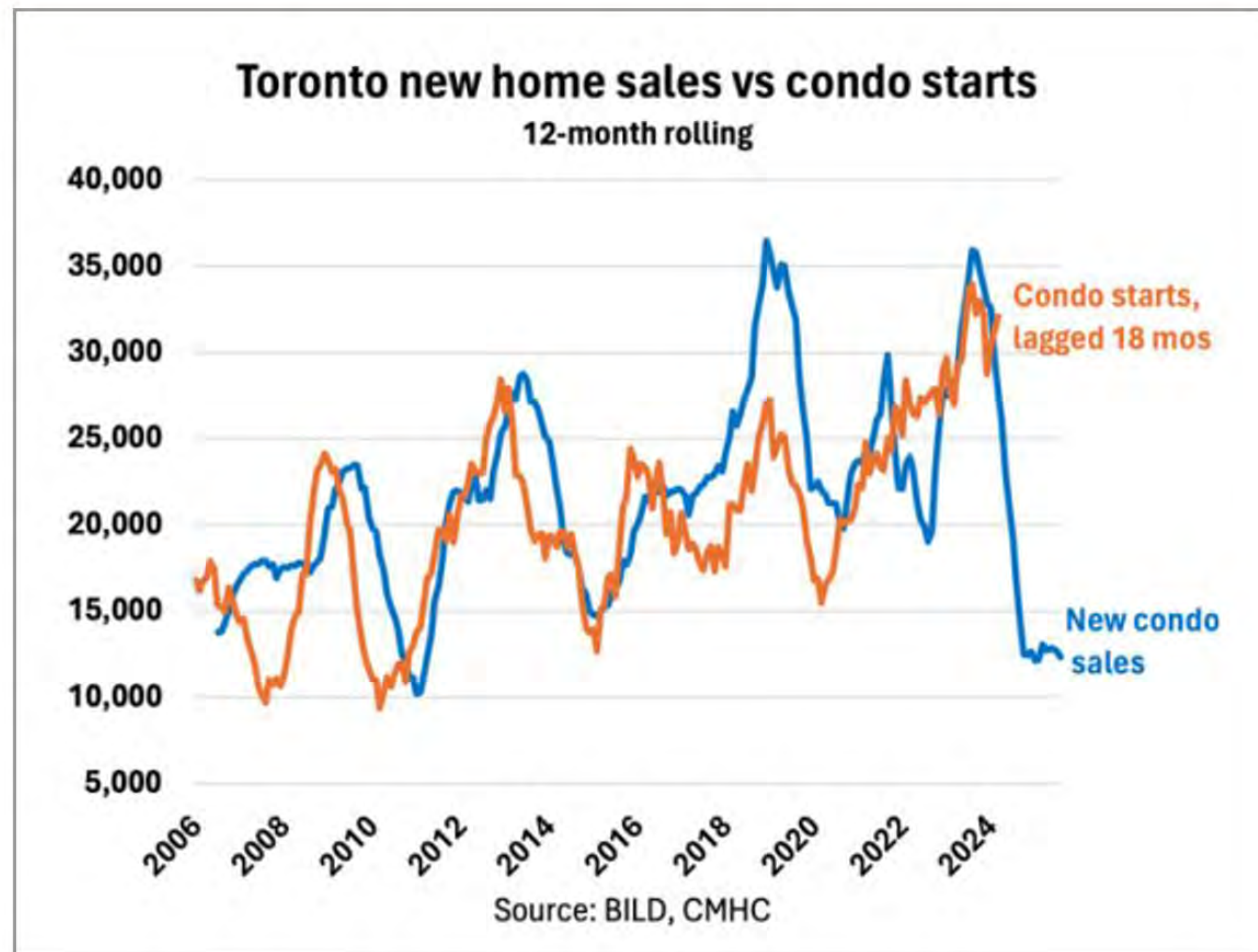
The number of dwellings under construction across Toronto fell 1.3% in March due to a surge in completions in the condo and rental segments. There are currently 104,000 dwellings under construction, well off the highs of 109,000 in 2023:



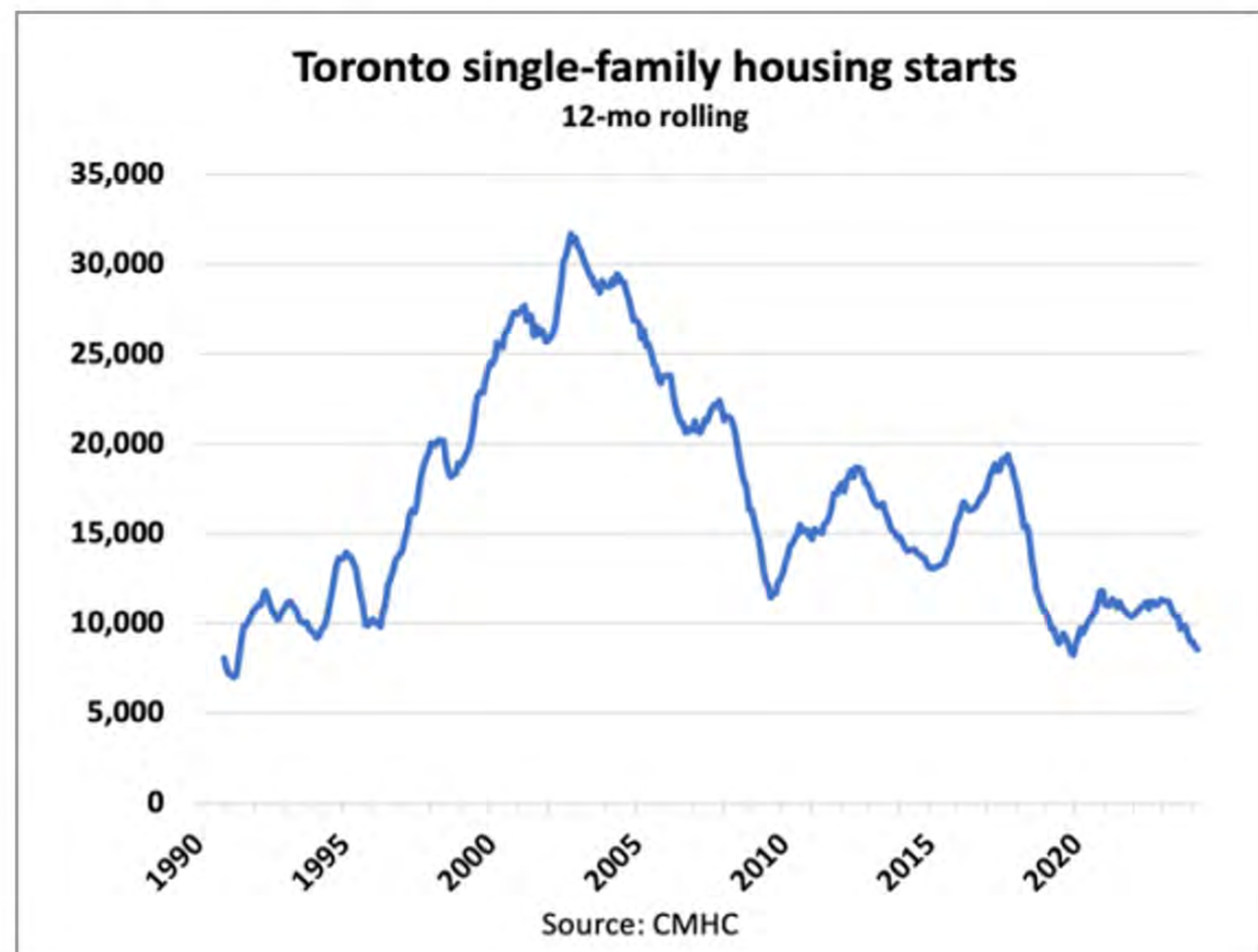
Housing starts are still set to slow sharply in coming months. New condo sales were down 37% y/y in March and down 82% from 2022 levels. Based on the normal relationship between preconstruction sales and condo starts, we should expect a dramatic slowing in new building activity over the next year.

This is exactly the dynamic that will set up for a shortage of units in future years, but that may not be a story until 2026 or 2027:



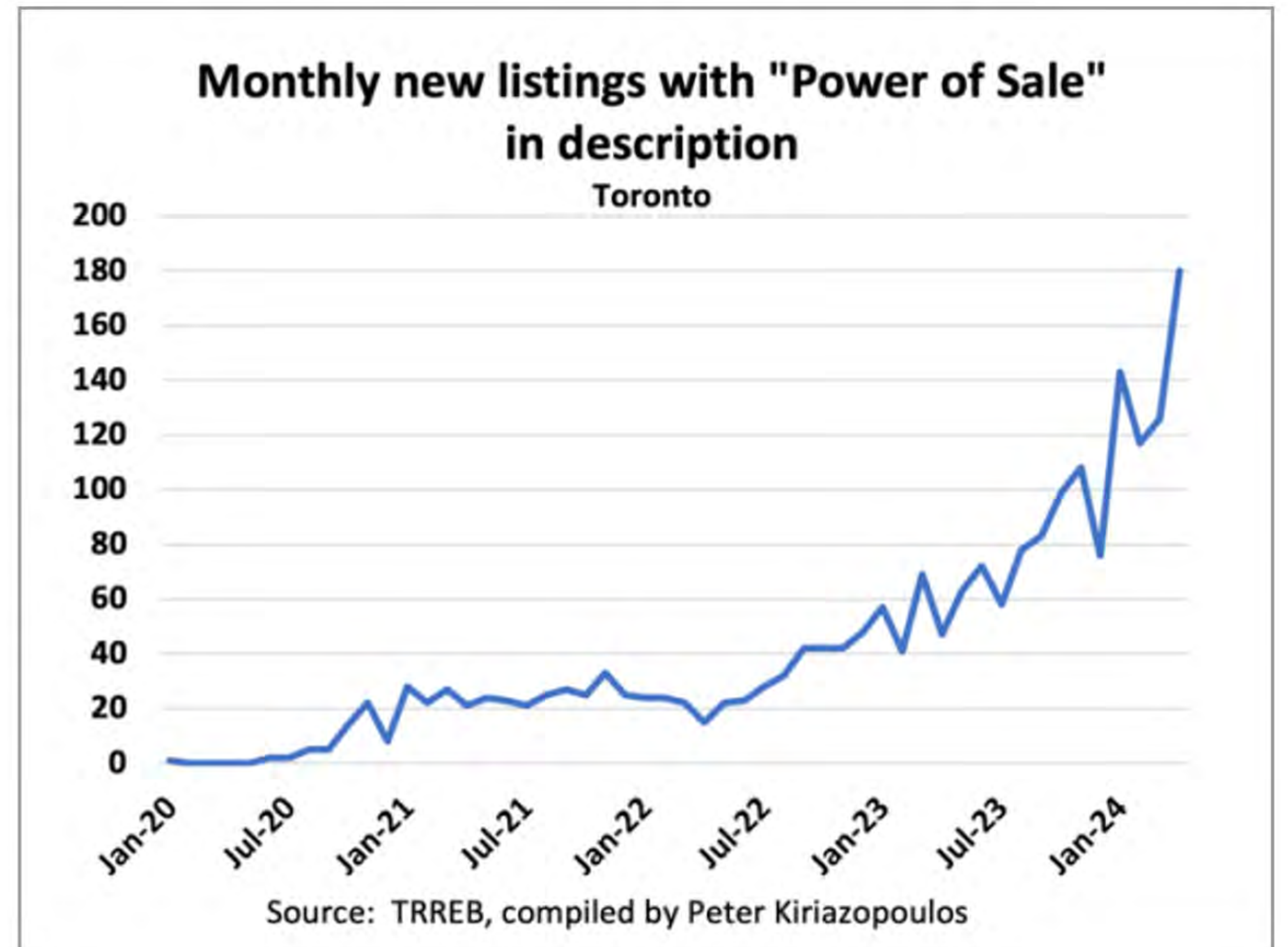


The more immediate concern is for the single-family segment where starts have now fallen to the same levels as we saw during the COVID lockdowns. It doesn't feel like it now, but were sleepwalking into a major supply crisis:



Power of sale listings rise

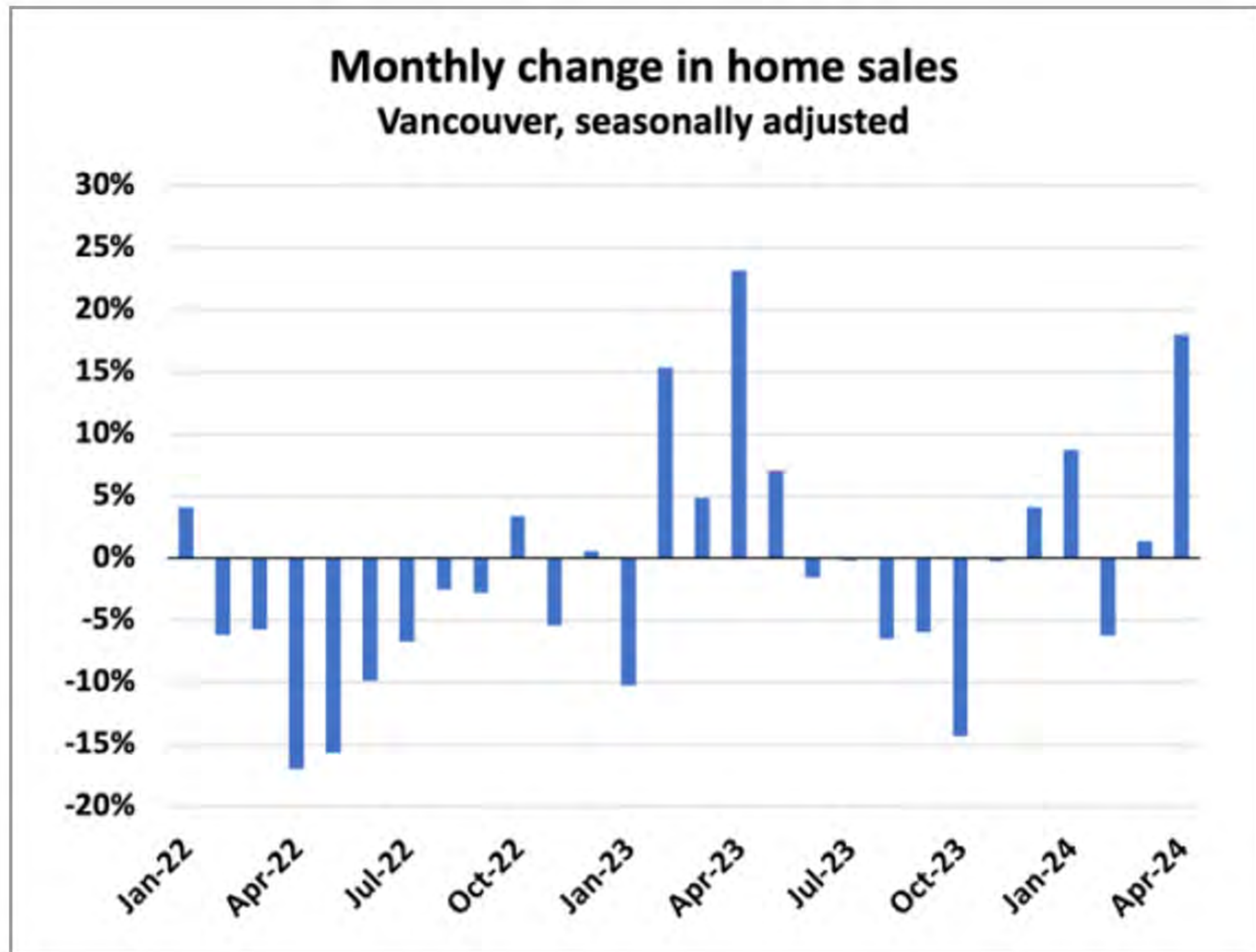
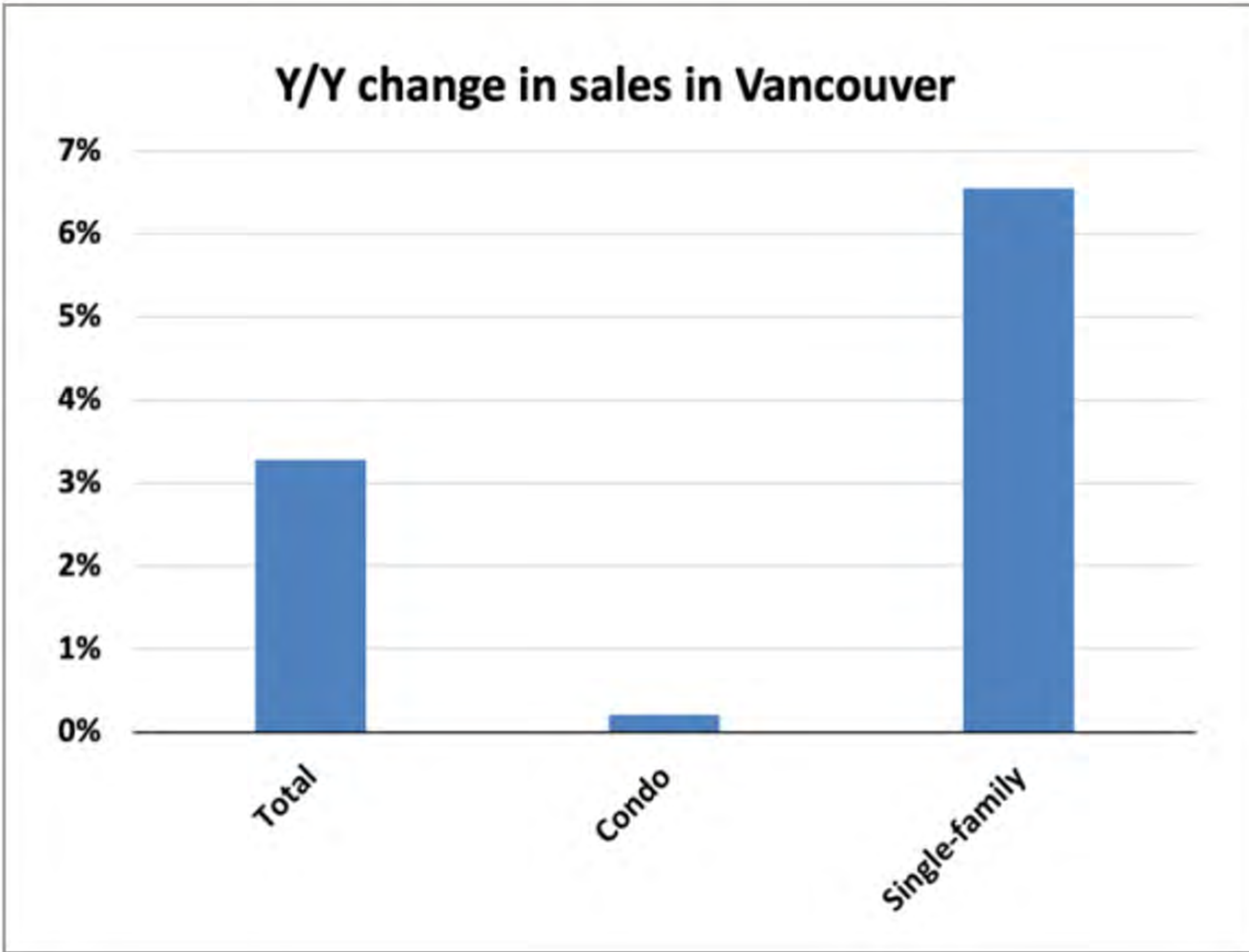
In a sign that more homeowners are feeling the impact of high rates, new listings with the term “power of sale” in the description hit 180 in April. Thanks to Peter Kiriazopoulos for this data.



3) Vancouver home sales AND new listings surge in April

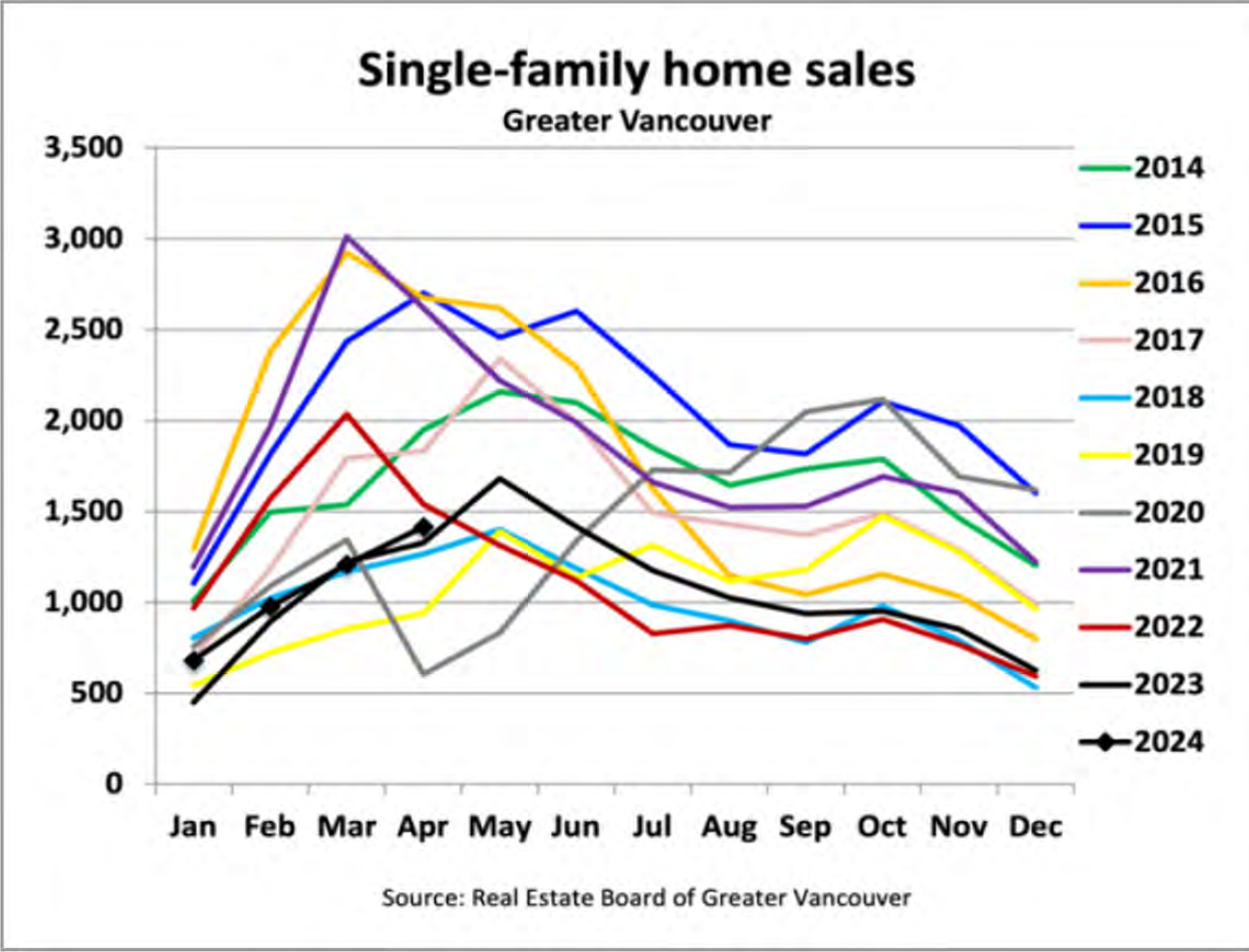
Sales surge

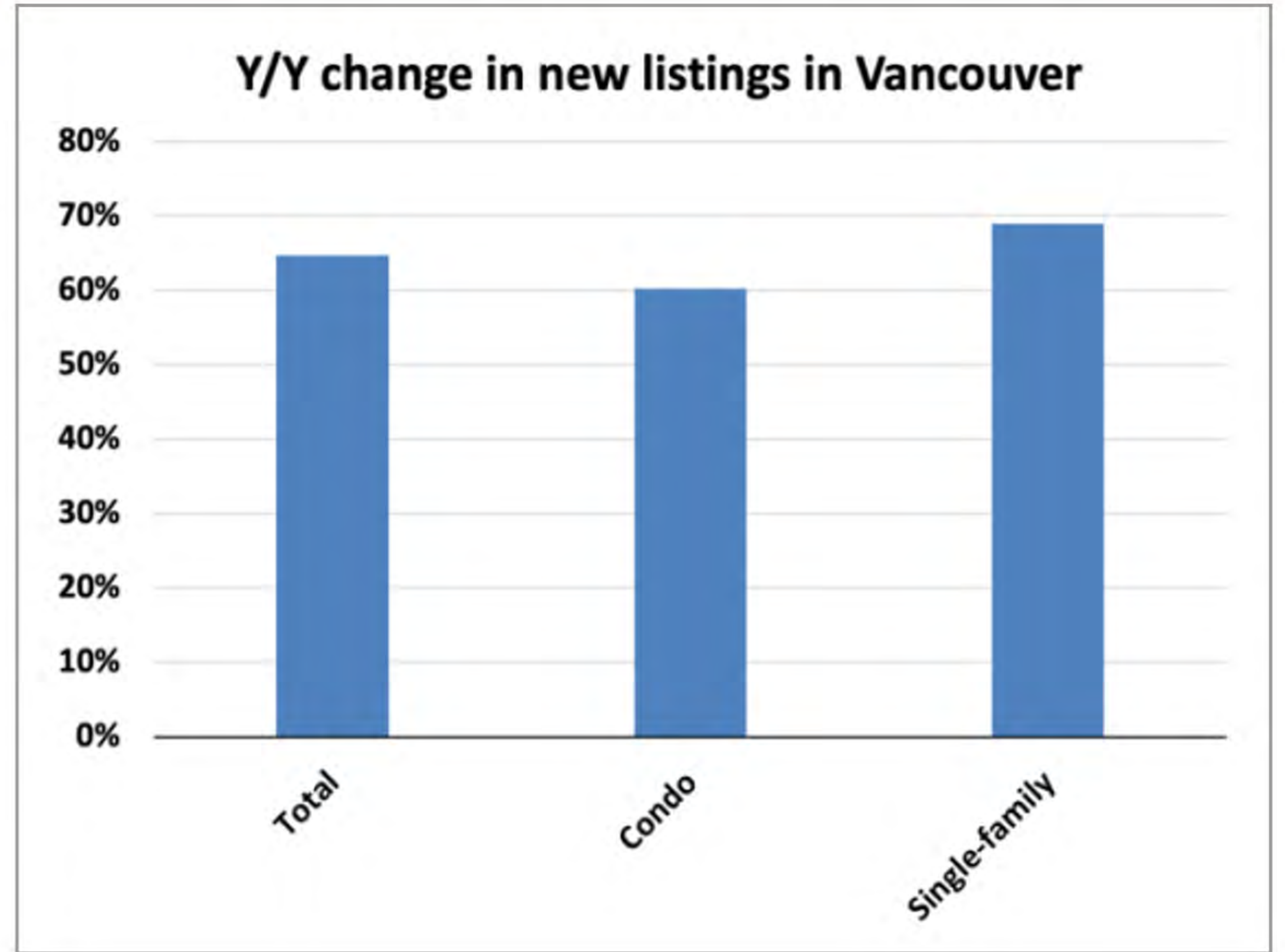
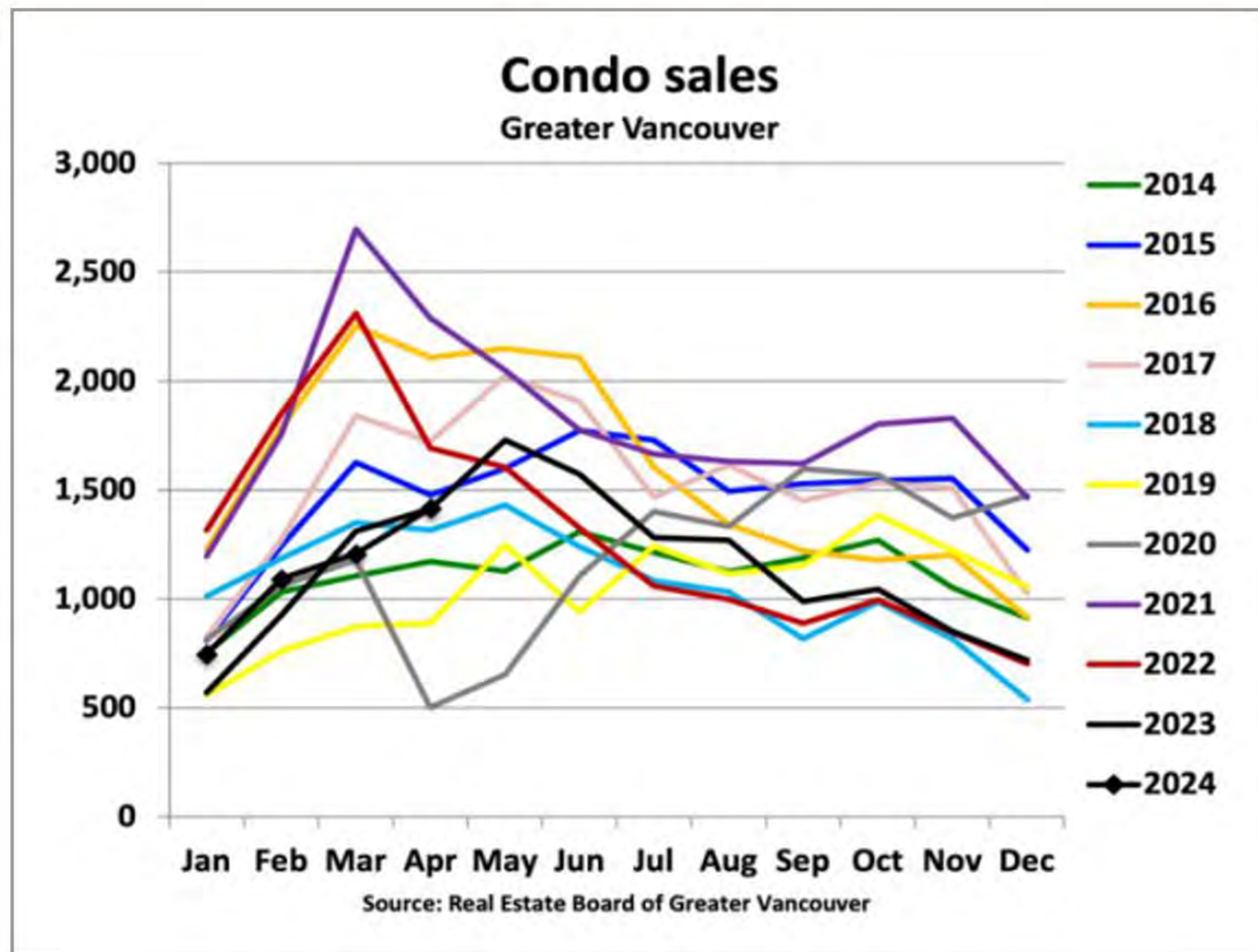
Unless my seasonal adjustments are off, it looks to me like Vancouver saw an 18% jump in seasonally adjusted home sales in April. If correct, that would be the largest increase since last spring:



Demand remains below normal levels, to be sure, but it's not nearly as soft as it is in Toronto. Both condo and single-family sales were only slightly below decade norms in April:

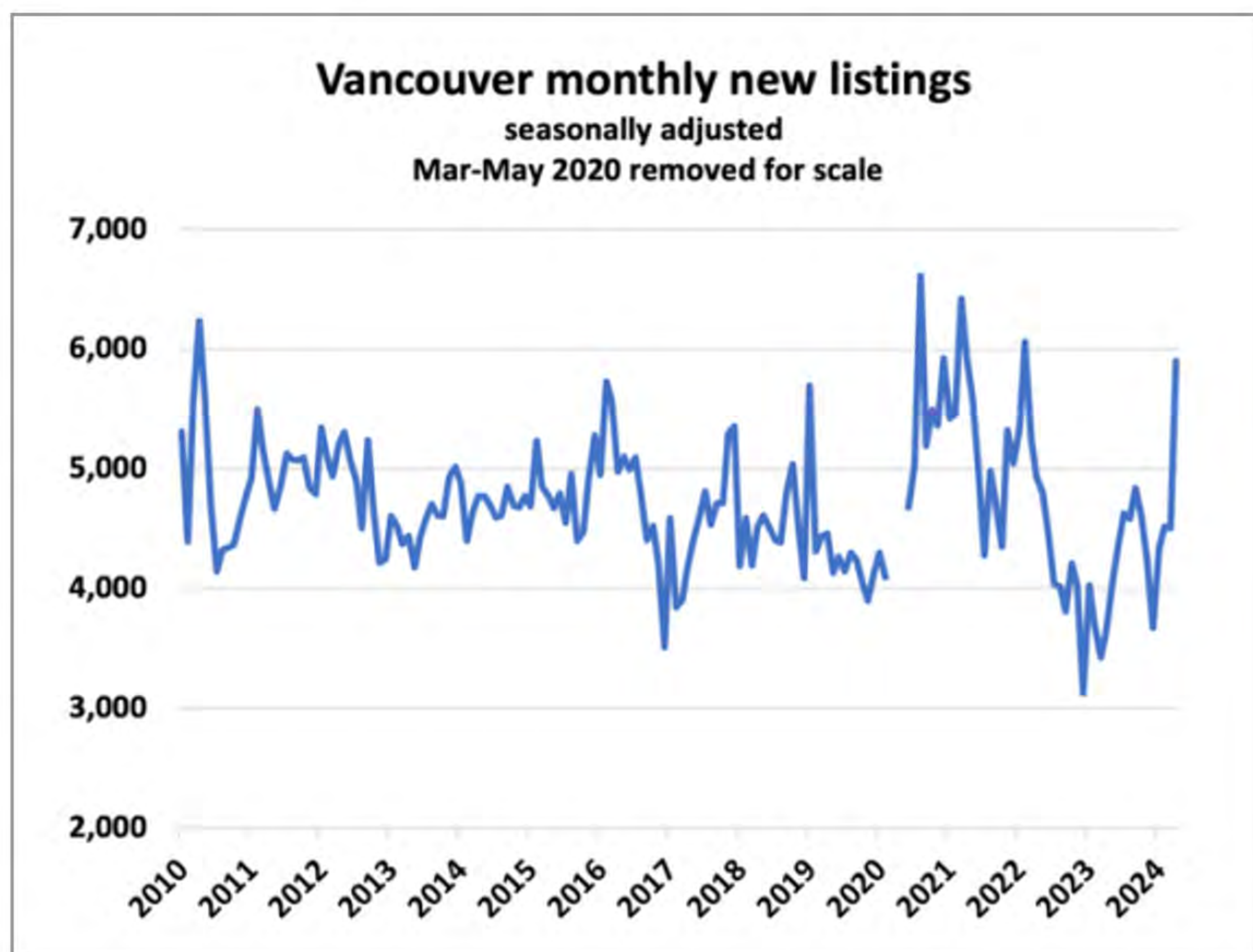
Sales were up a little over 3% compared to last year, and up over 6% in the single-family segment:





New listings surge

Again, my seasonal adjustments may be a bit wonky, but my preliminary estimates suggest that new listings just spiked 30% m/m in April to hit the highest levels since early 2022. What we know for sure is that the unadjusted numbers were up 64% compared to last year:

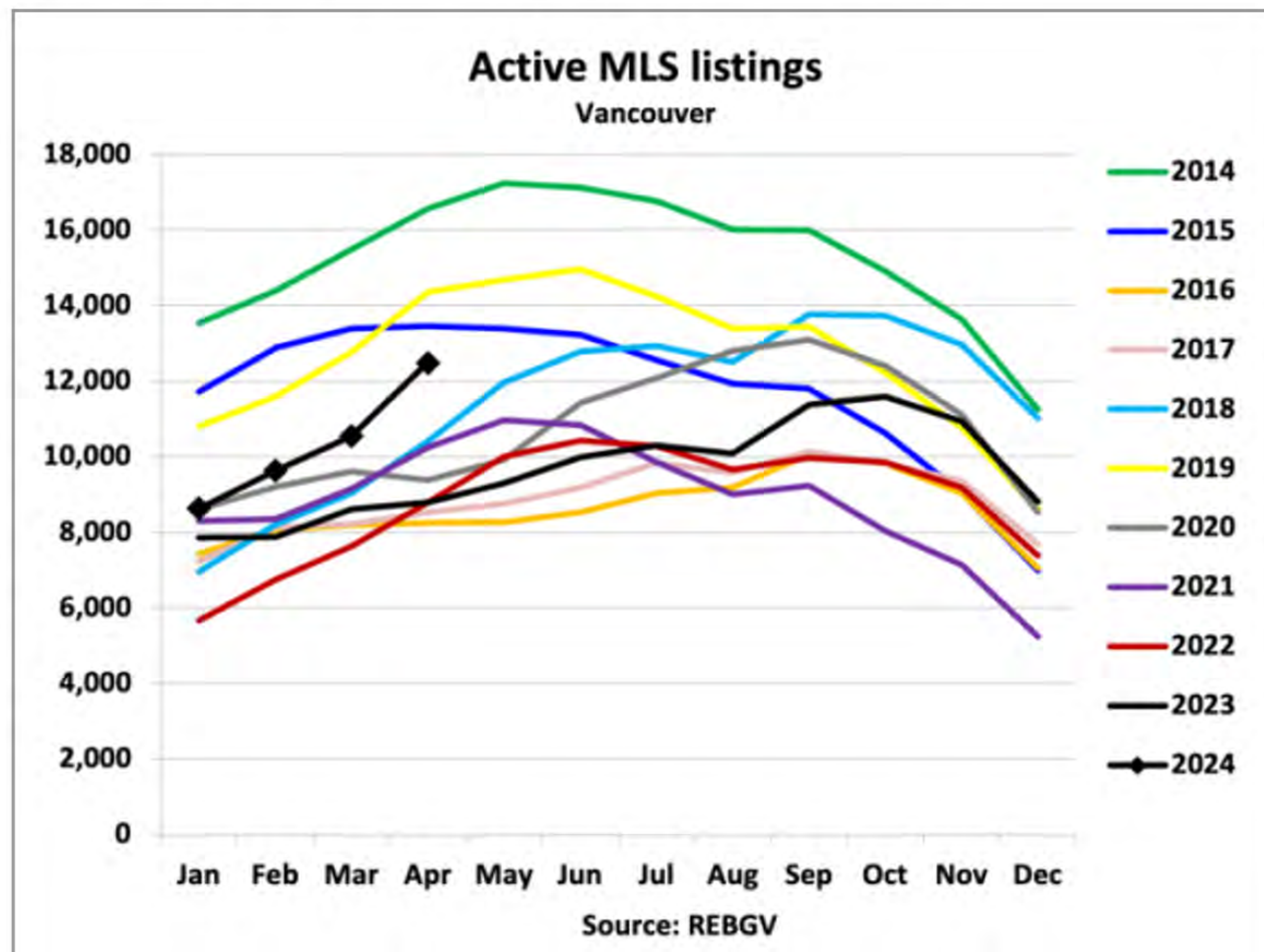


As with Toronto, the sales-to-new listings ratio slipped into the low 40% range, a level consistent with declining prices:

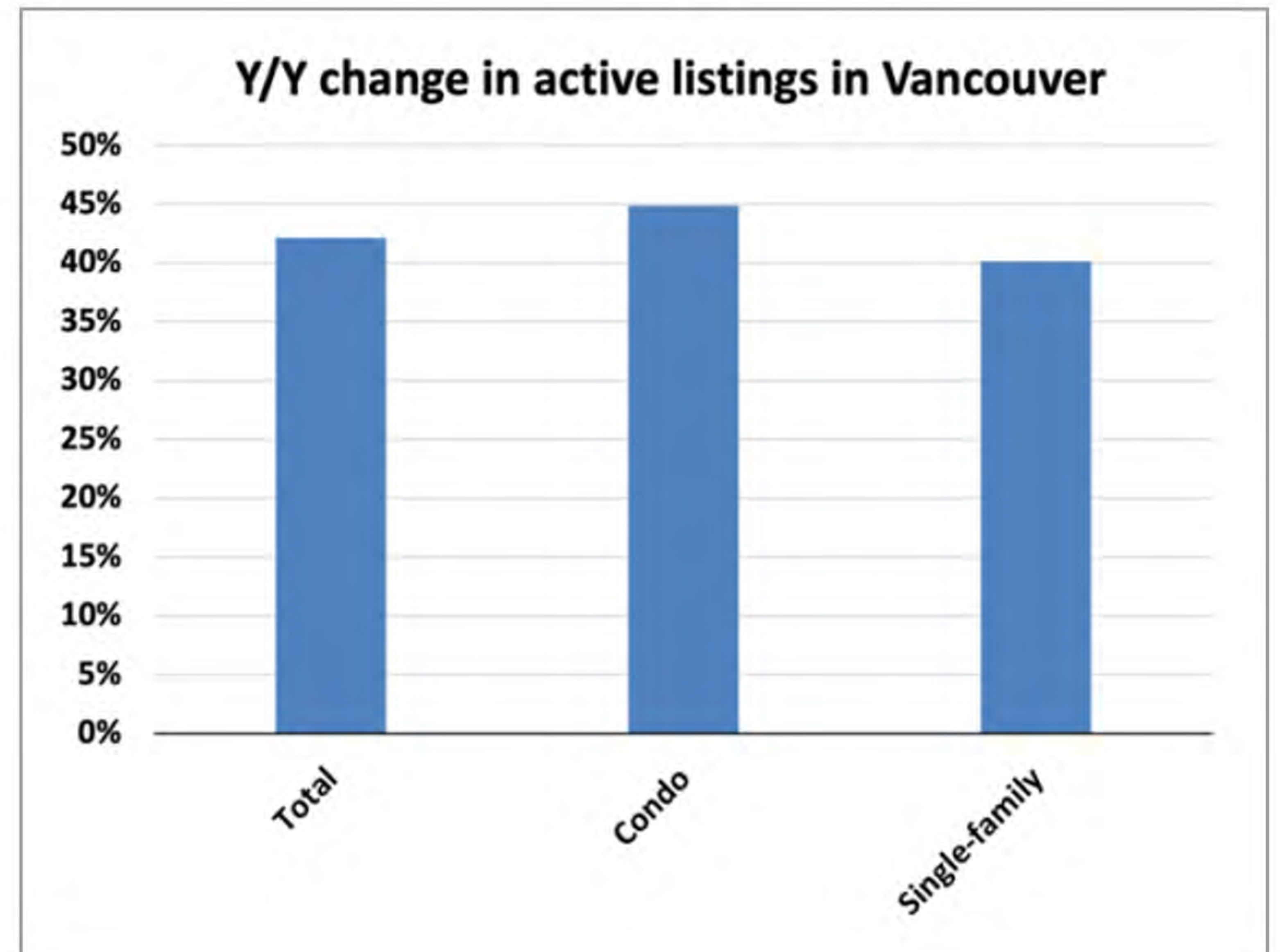


The labour market is clearly rolling over

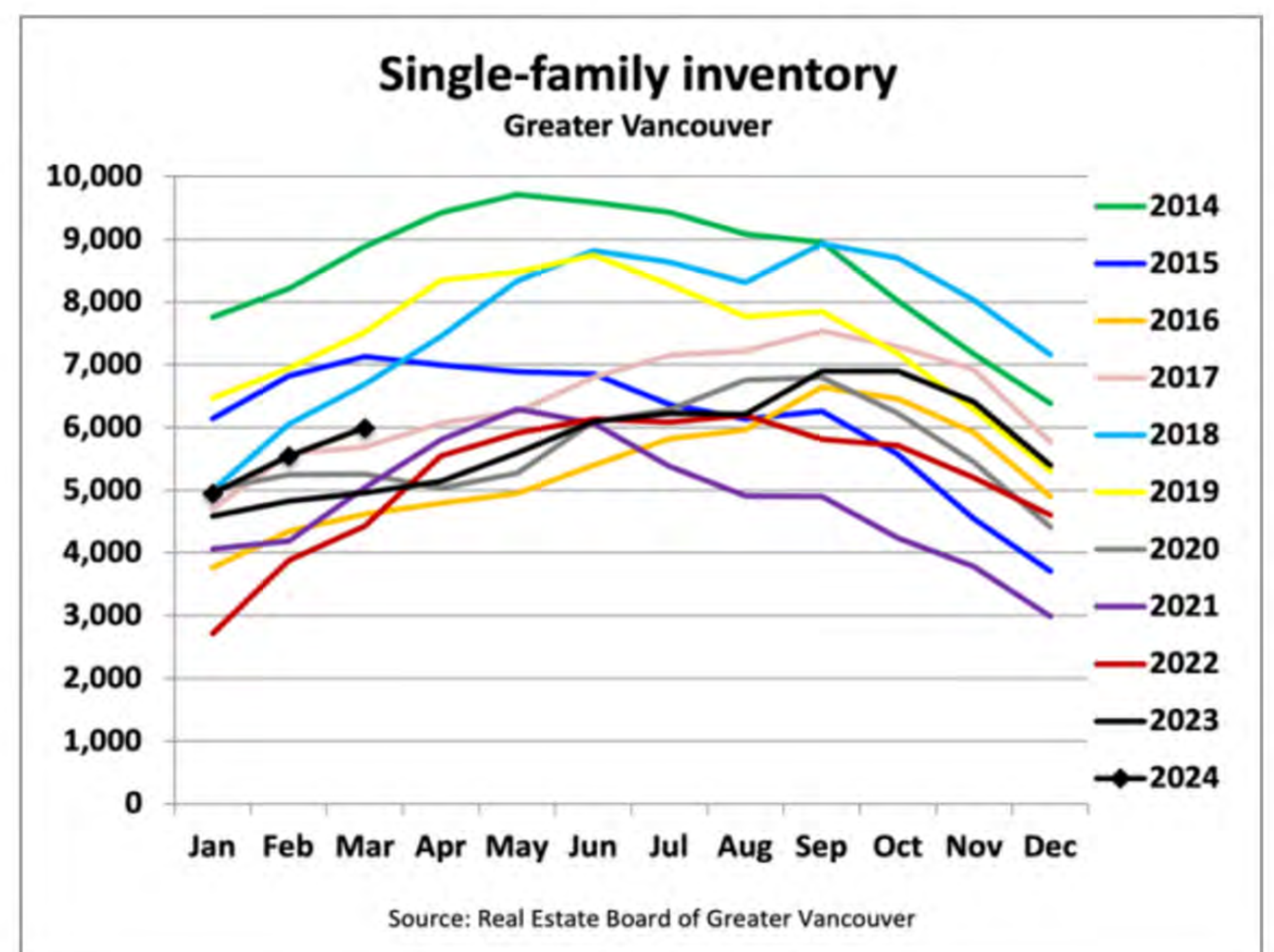
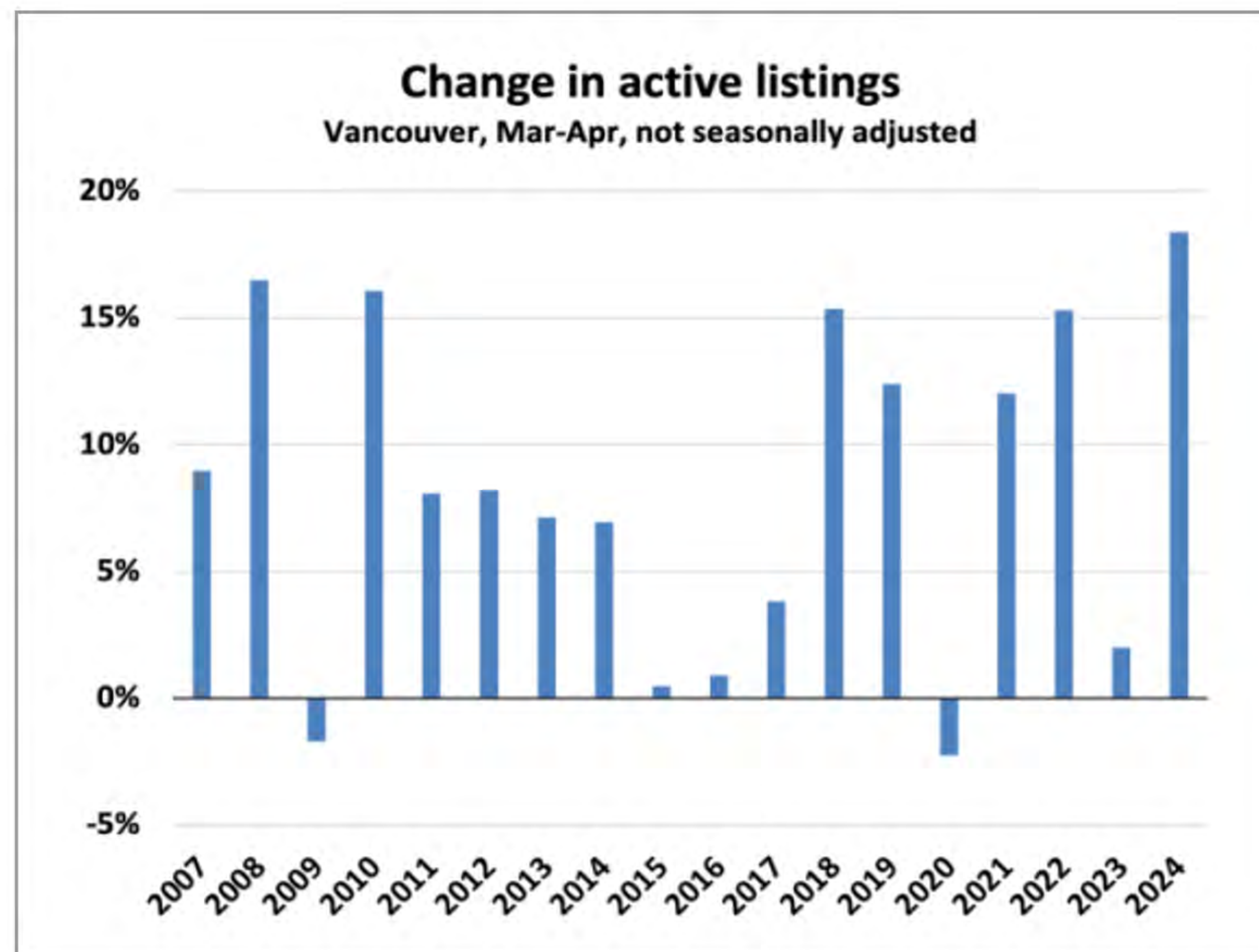
Active listings jumped 18% m/m in April, the strongest increase for the month since at least 2007:

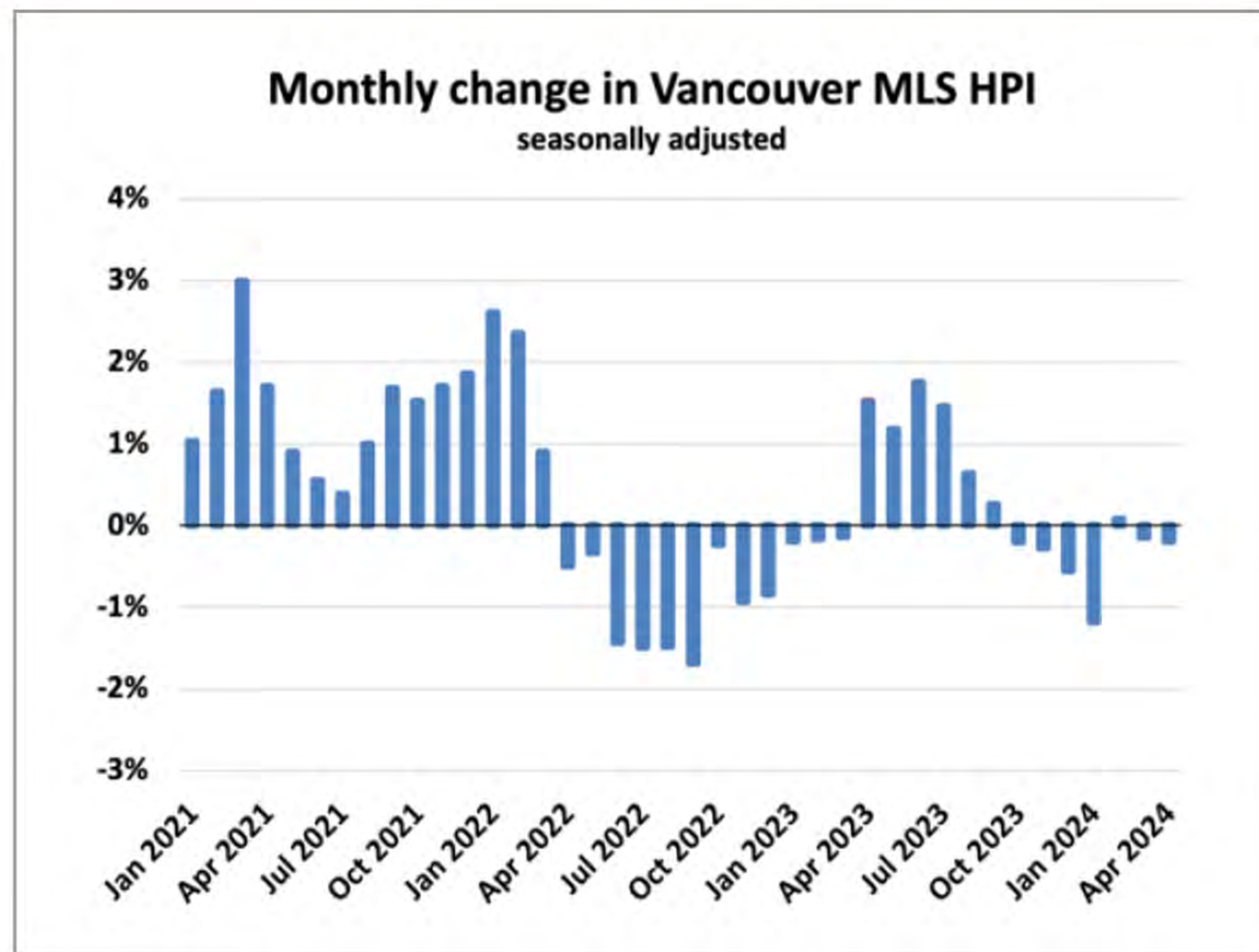
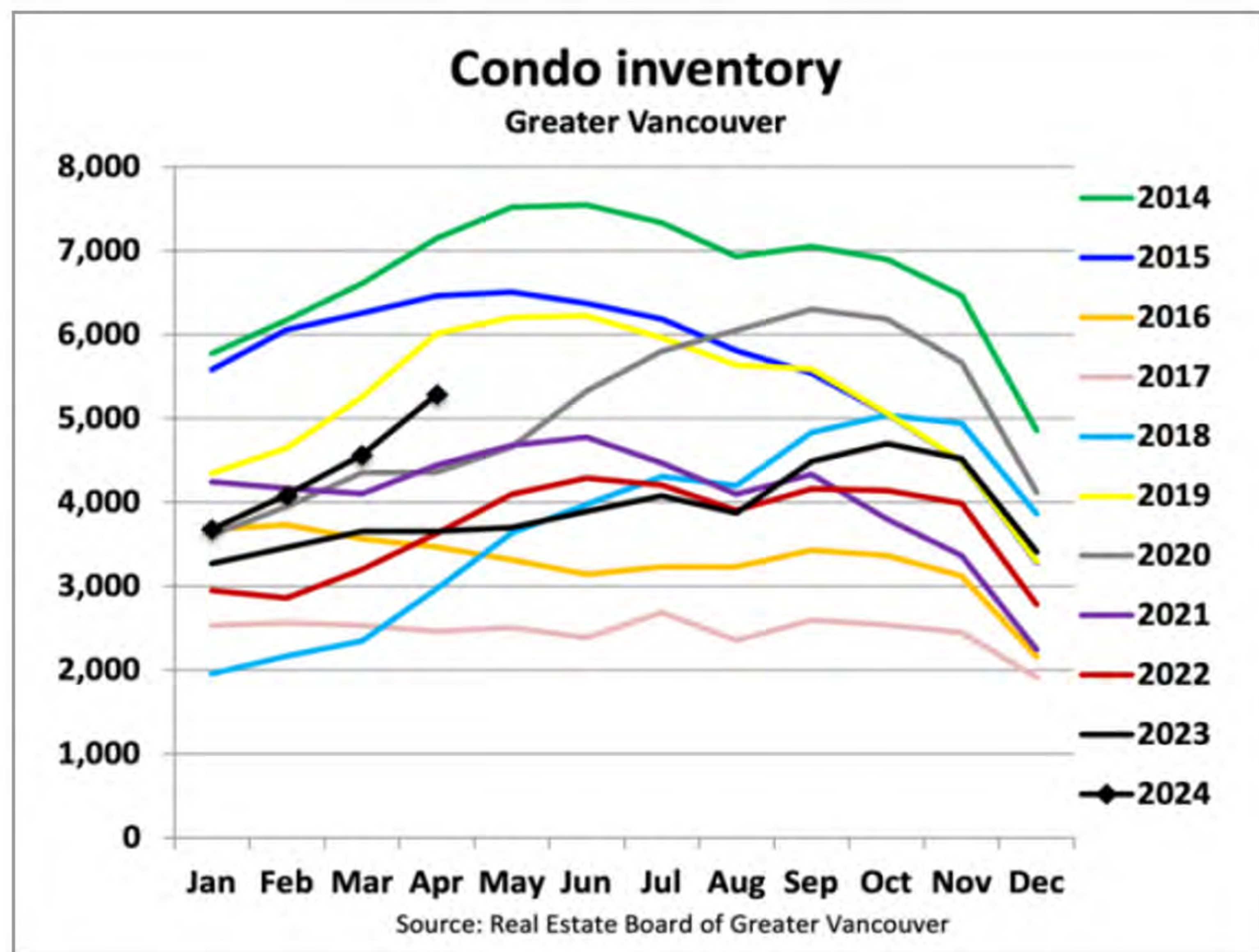


That left inventory up 42% compared to last year at this time:



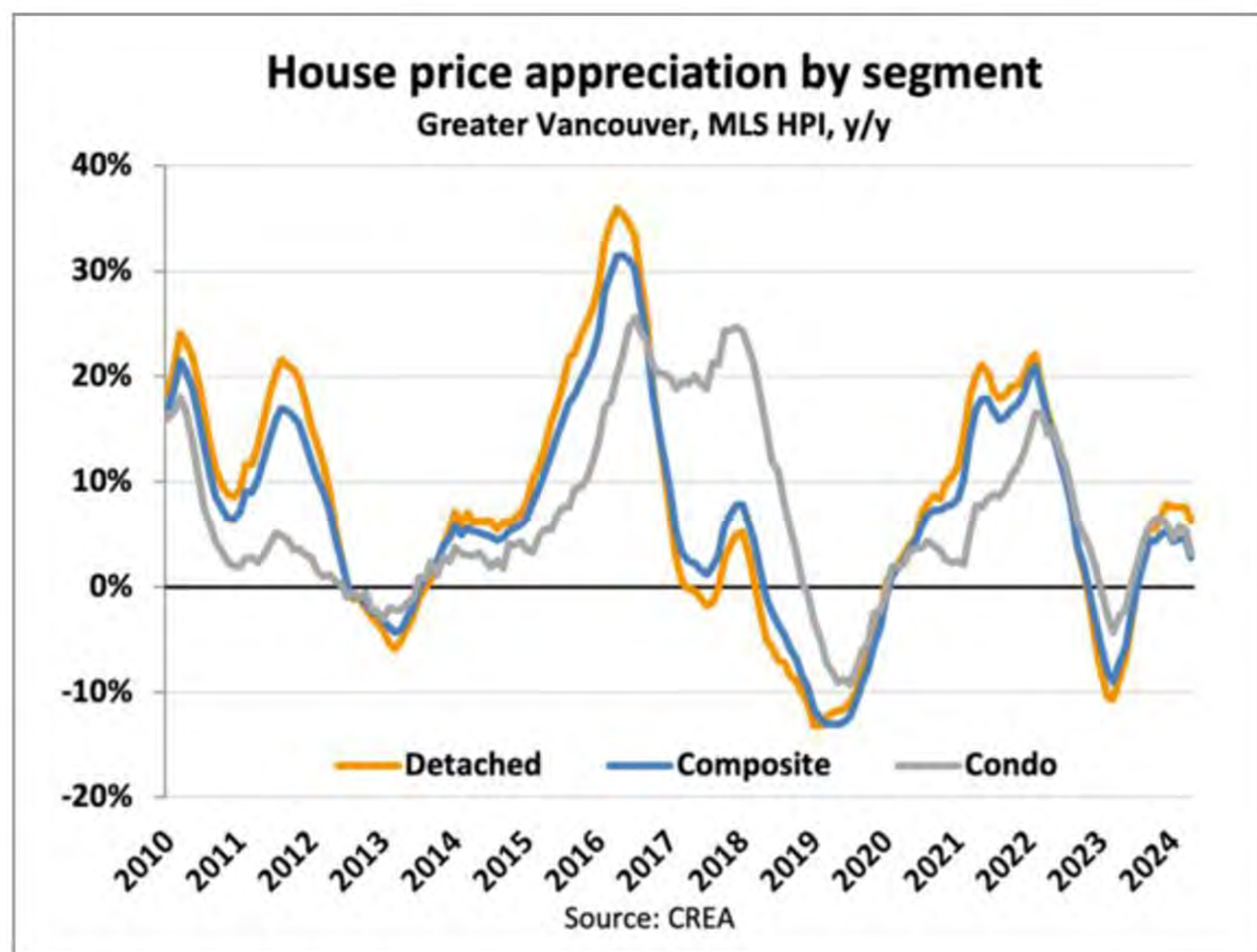
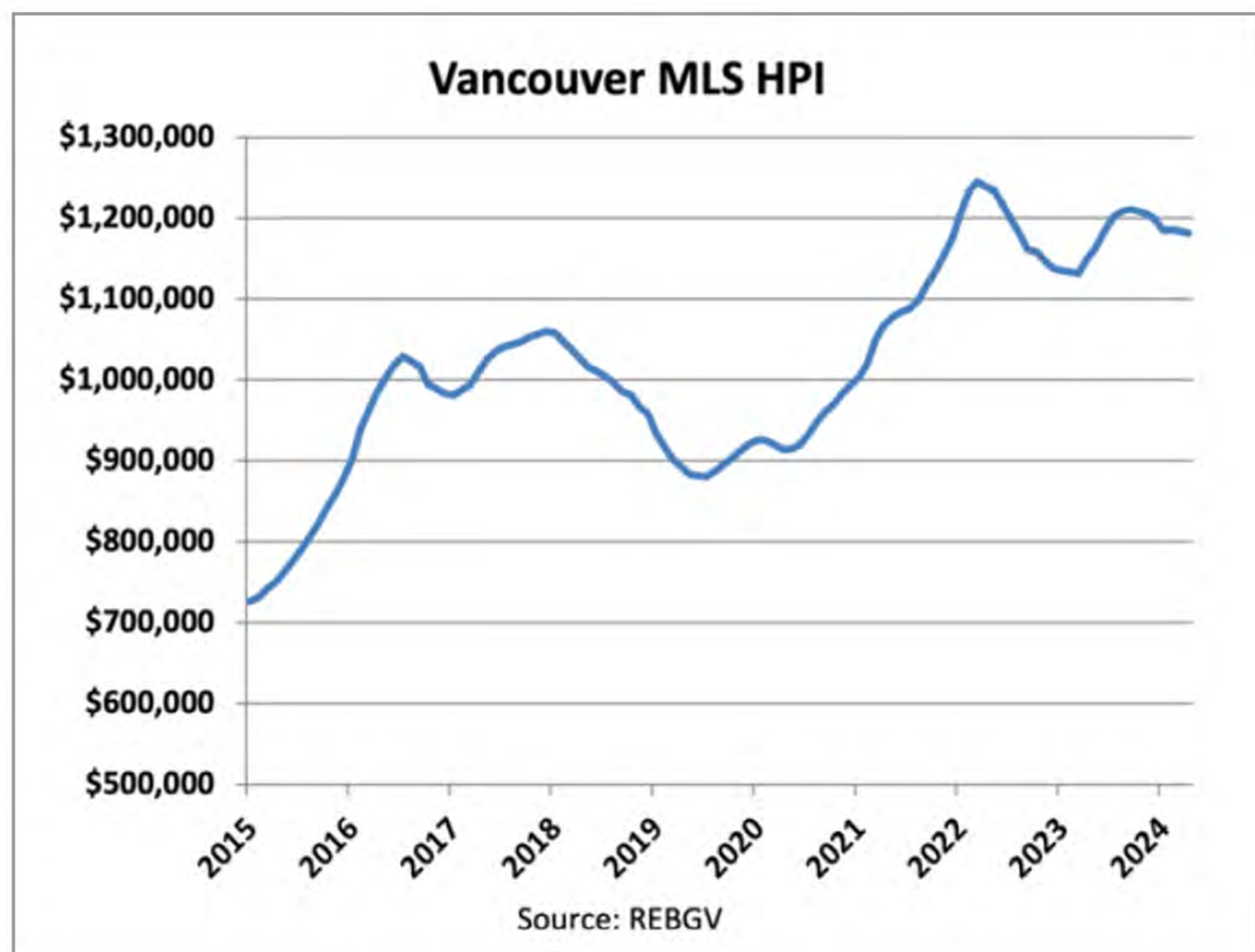
Note below that the inventory build is particularly large in the condo segment, although both remain more or less "normal" for this time of year:





House prices tick lower

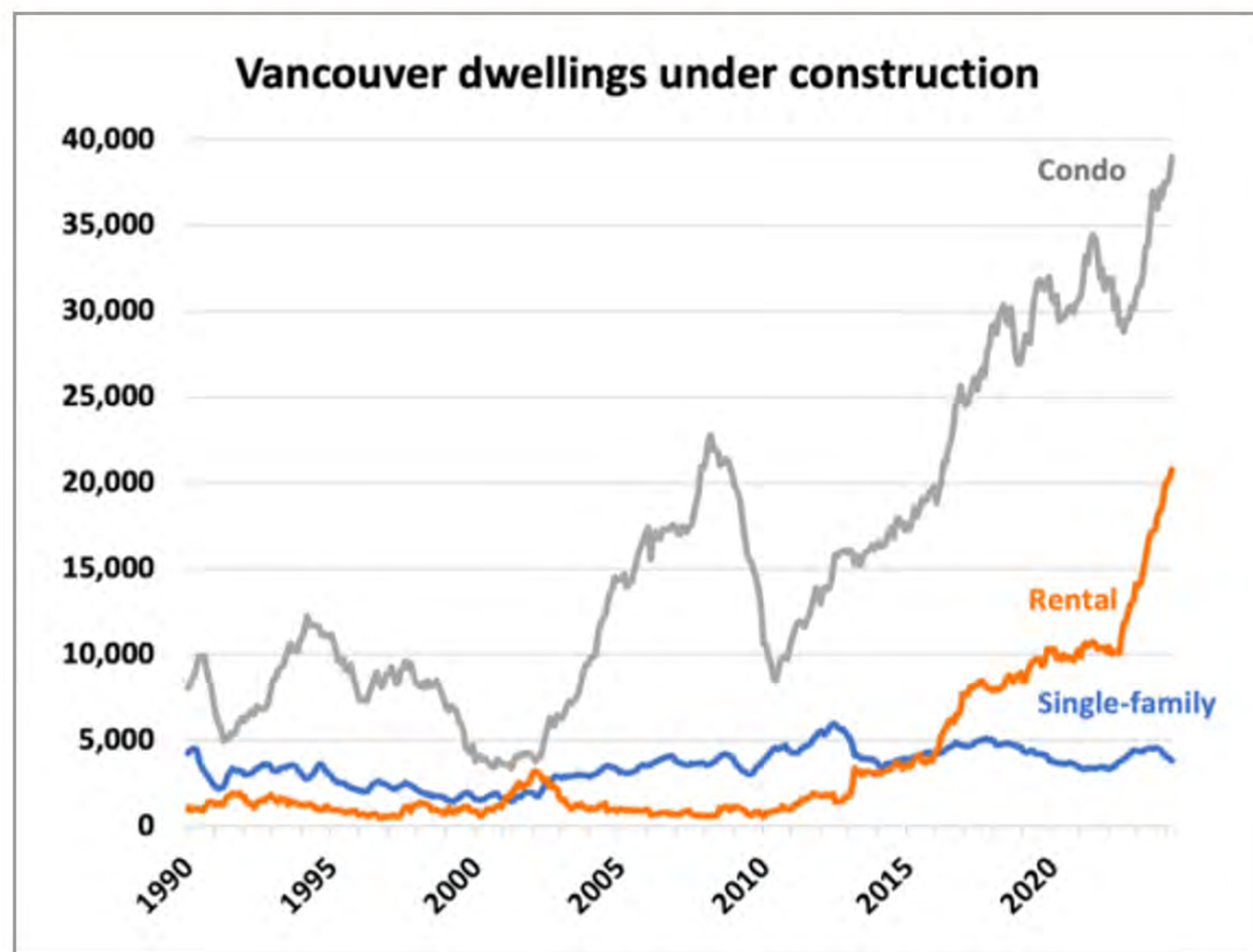
The seasonally adjusted MLS HPI declined 0.2% m/m in April but prices were stil 2.8% higher than last year:



Construction activity surges on condo boom

The number of dwellings currently under construction across Vancouver jumped 2.7% in March on the back of a 3% surge in condo activity and a 2.9% m/m increase in rentals.

Bucking the trend was the single-family segment where dwellings under construction fell 3% m/m and where there are now 15% fewer homes under construction than in Q3 last year:



The looming single-family supply crunch keeps getting worse in Vancouver. Single-family housing starts fell 32% y/y in March and look set to go even lower based on building permits:

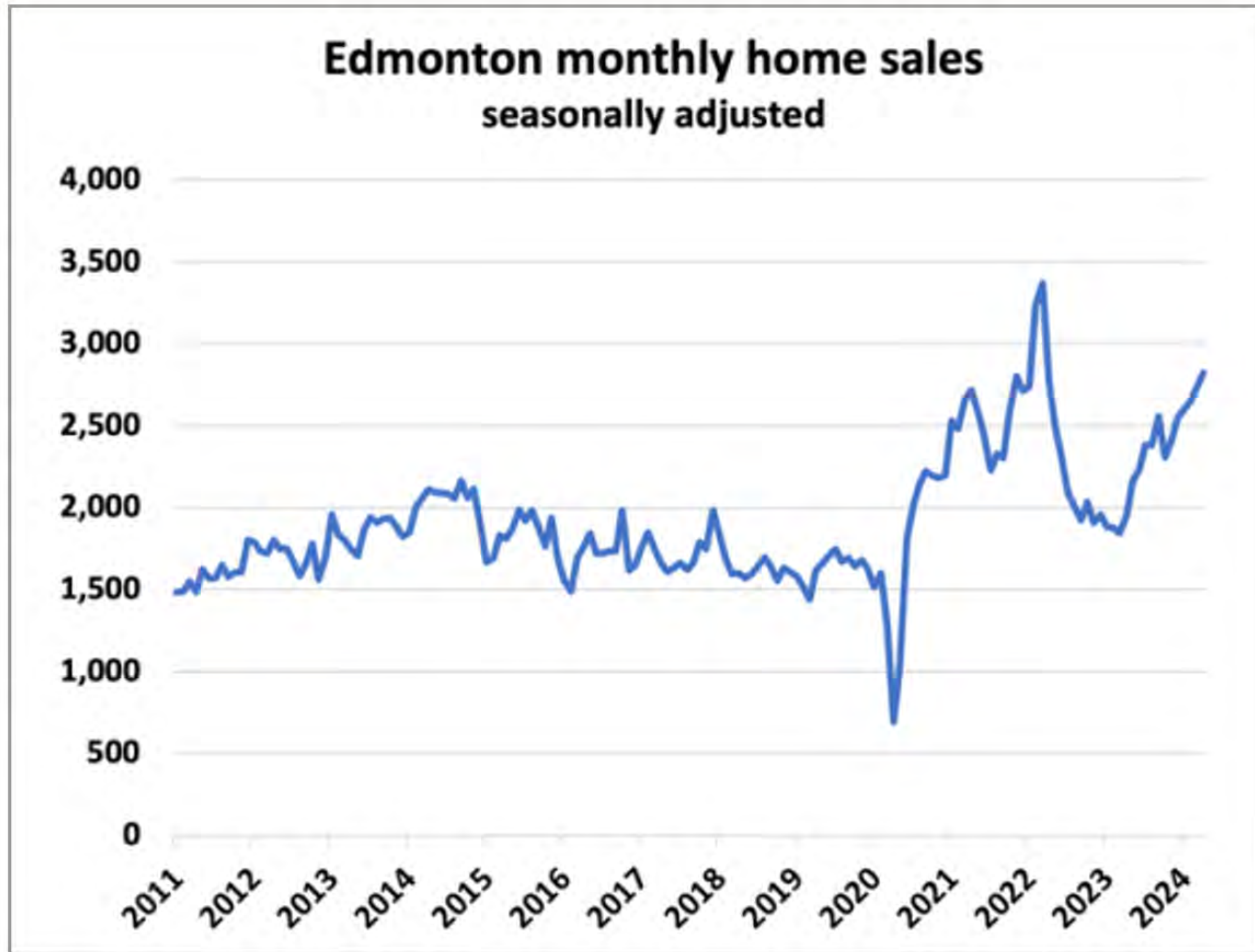


4) *Alberta markets remain scorching hot*

Demand cools slightly, but market balance still tightens

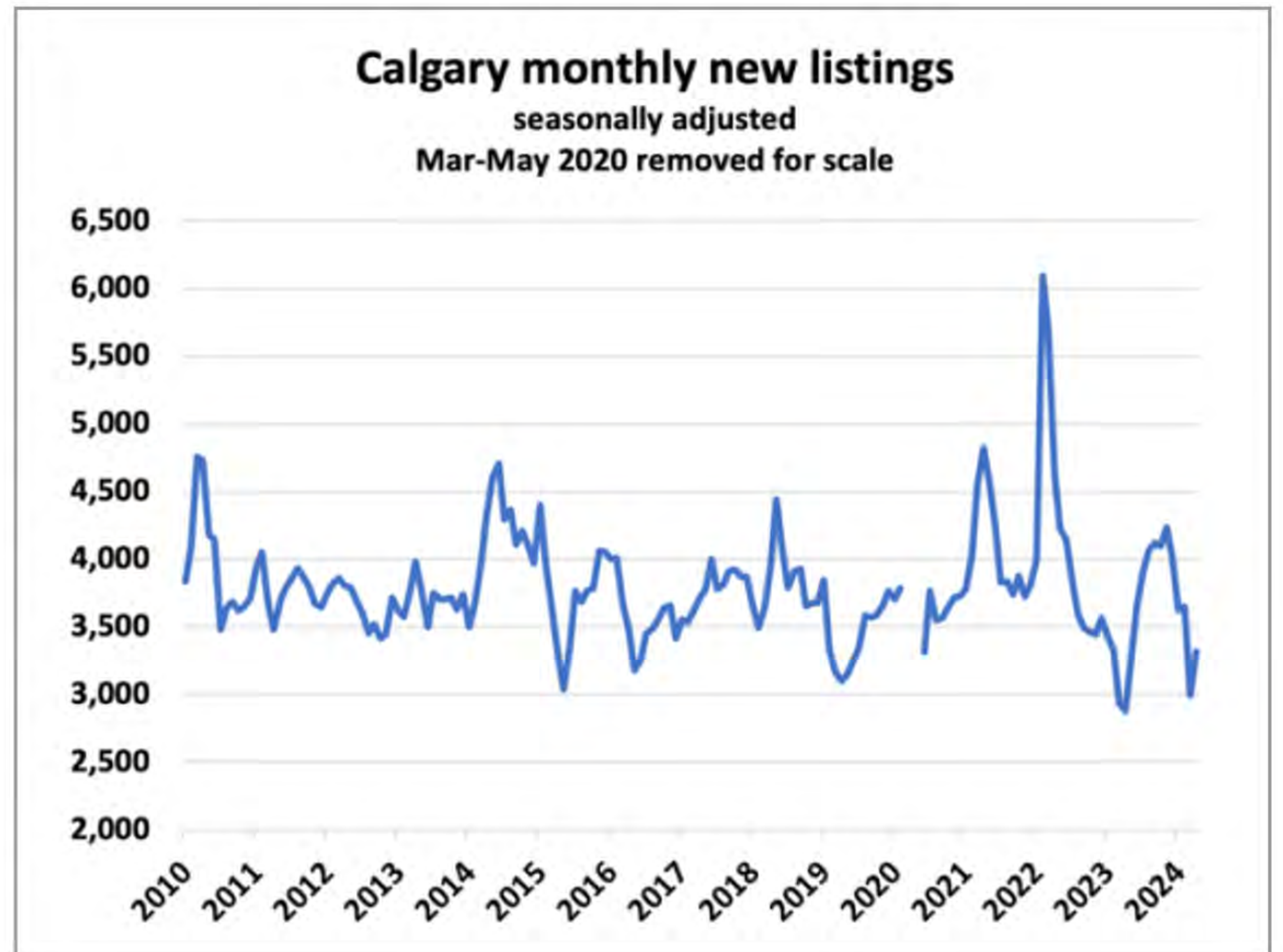
I see more signs that Edmonton is about to catch fire and take the crown from Calgary as the best performing top-10 metro in the country. For starters, seasonally adjusted home sales ticked down 2.1% m/m in Calgary but rose 3.0% in Edmonton (where demand is only a stone throw from record highs):



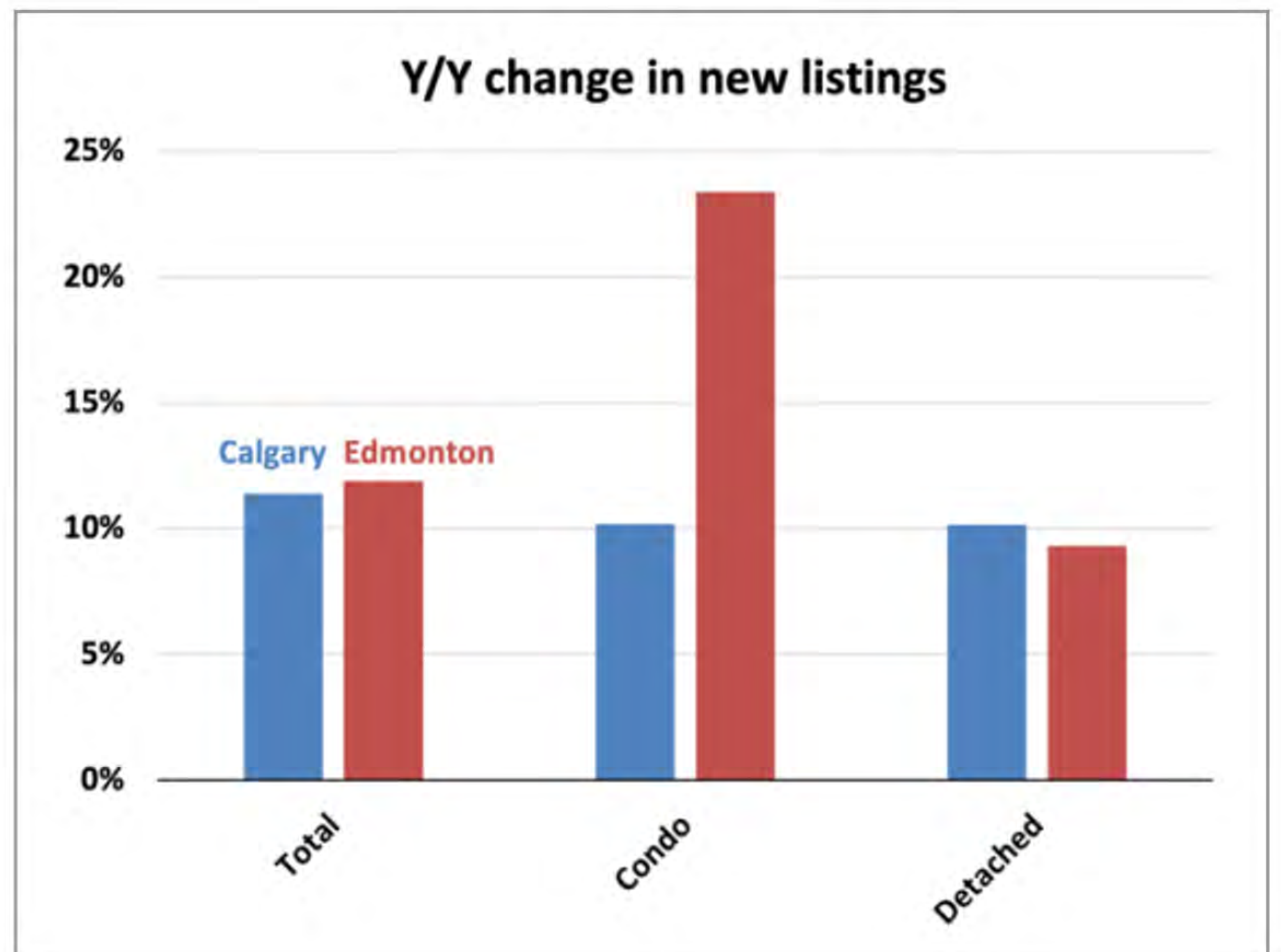
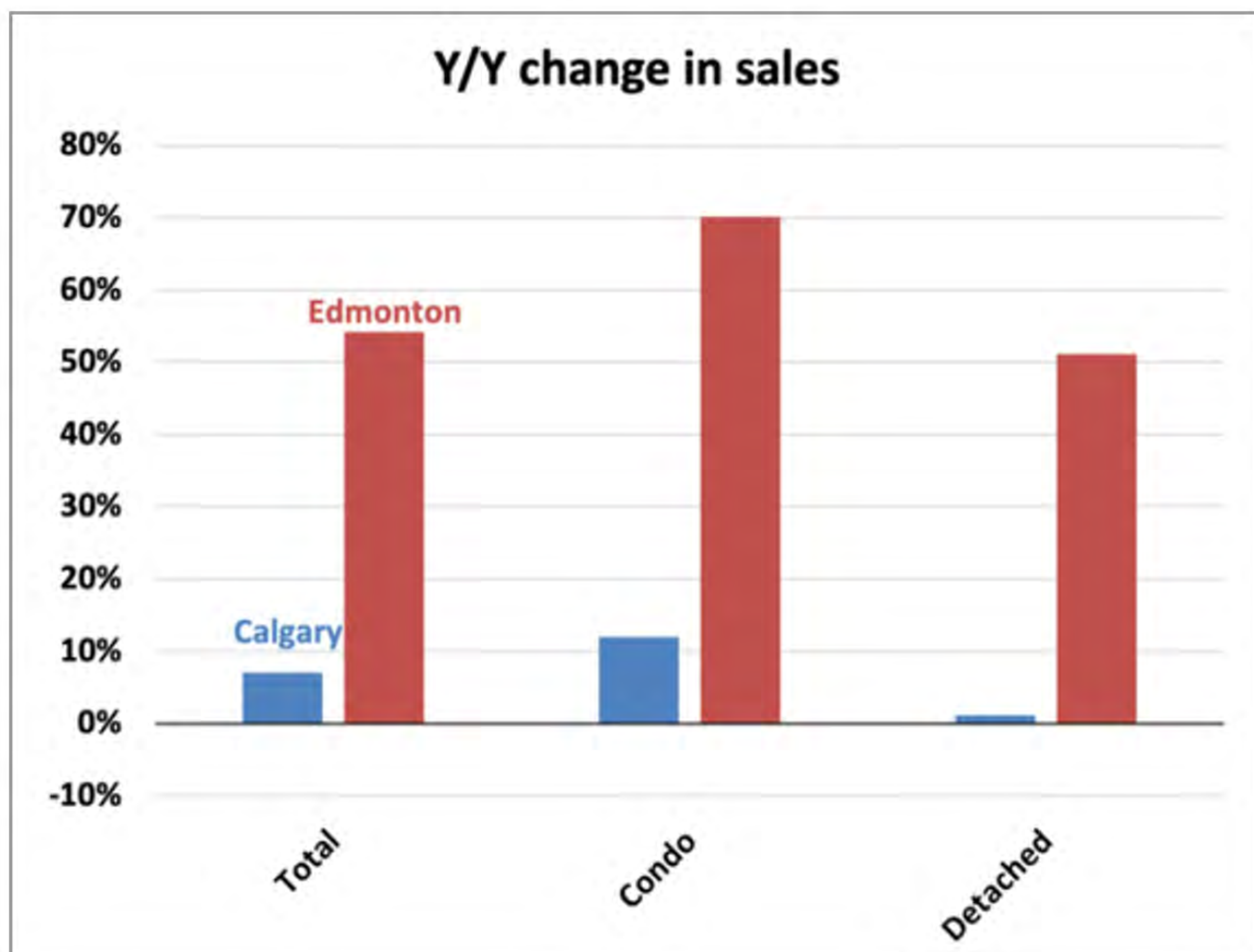


New listings tick up

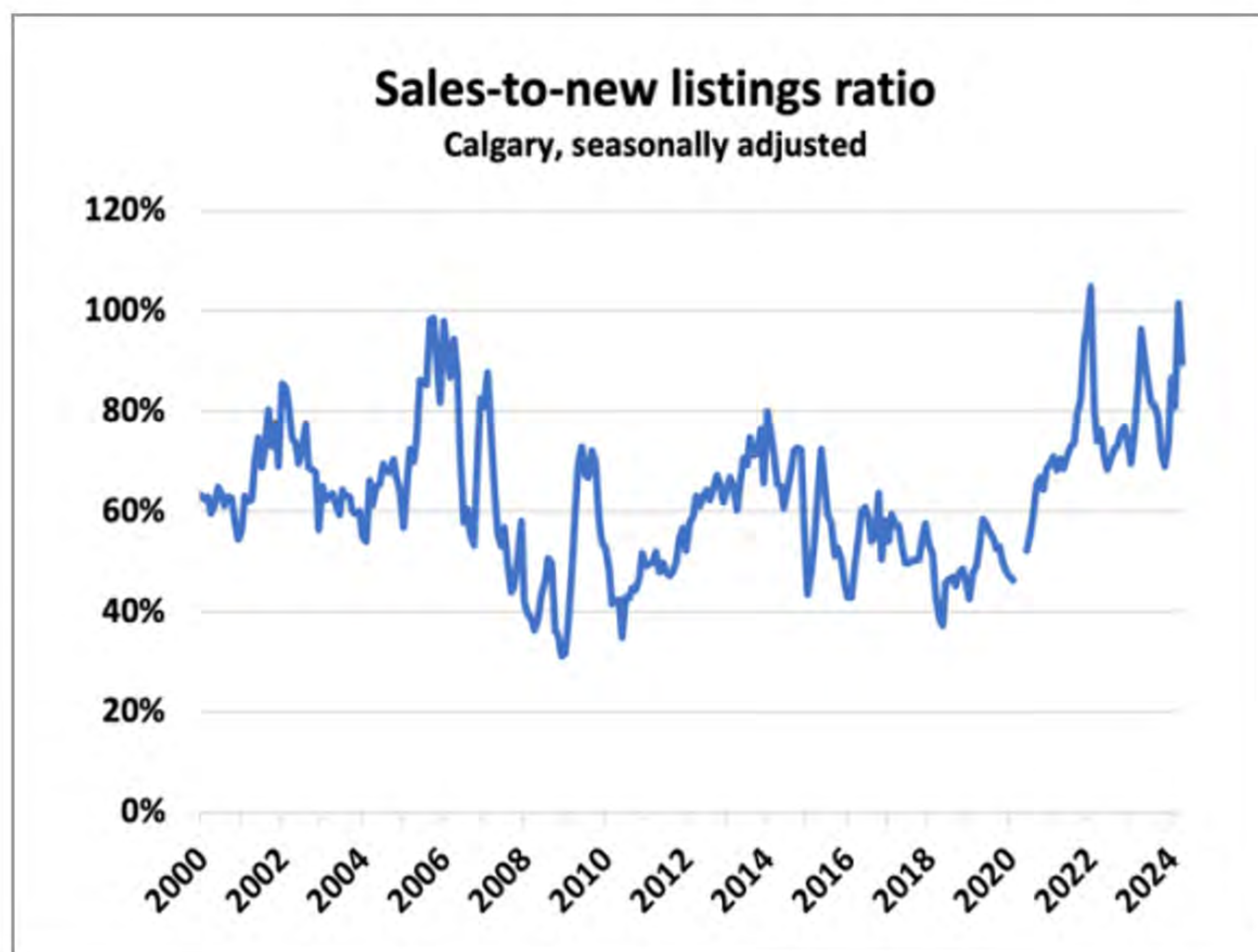
New listings were up by roughly 12% y/y in both metros.



The y/y trend is striking: Sales were up a solid 7% in Calgary but up a whopping 54% in Edmonton!!!

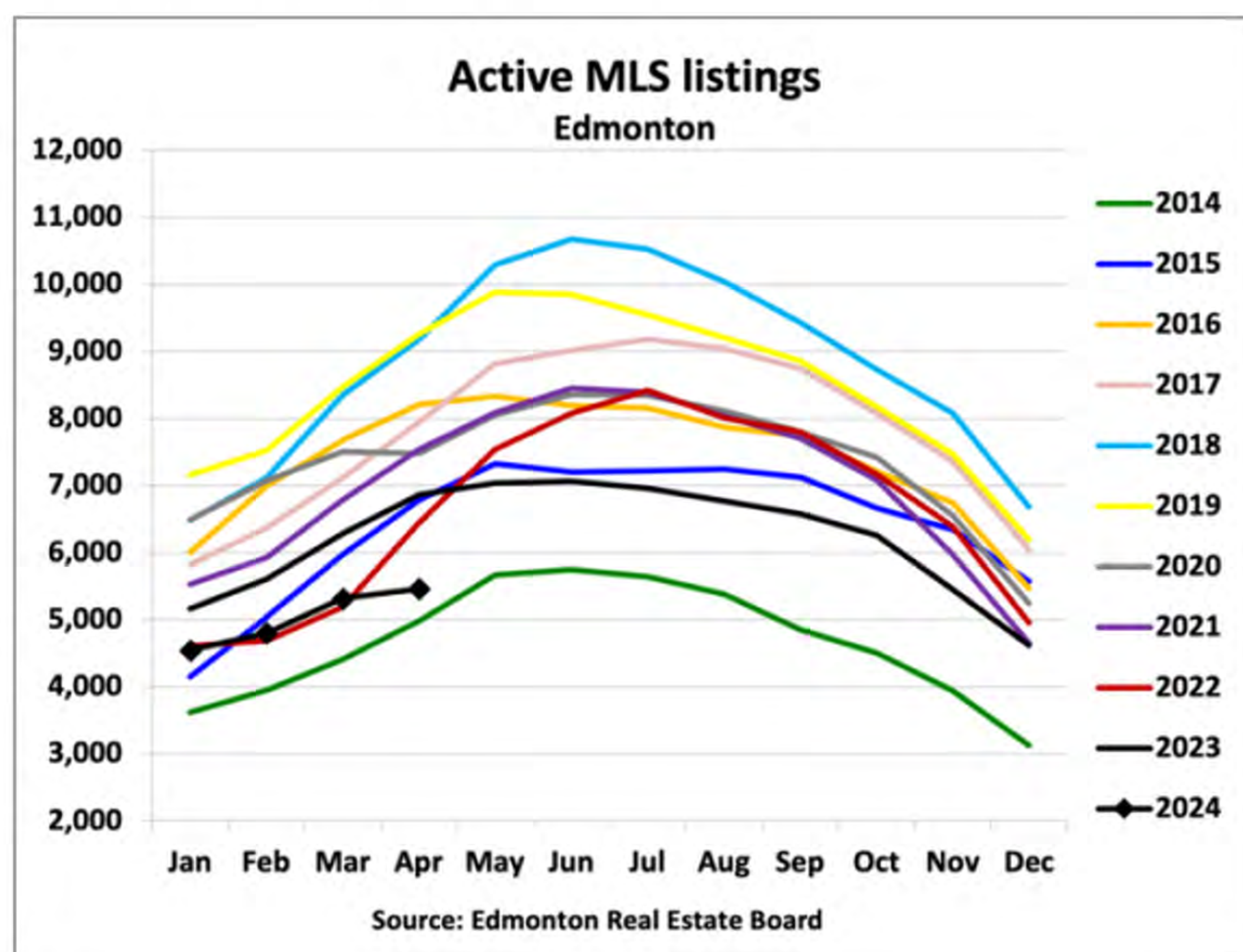
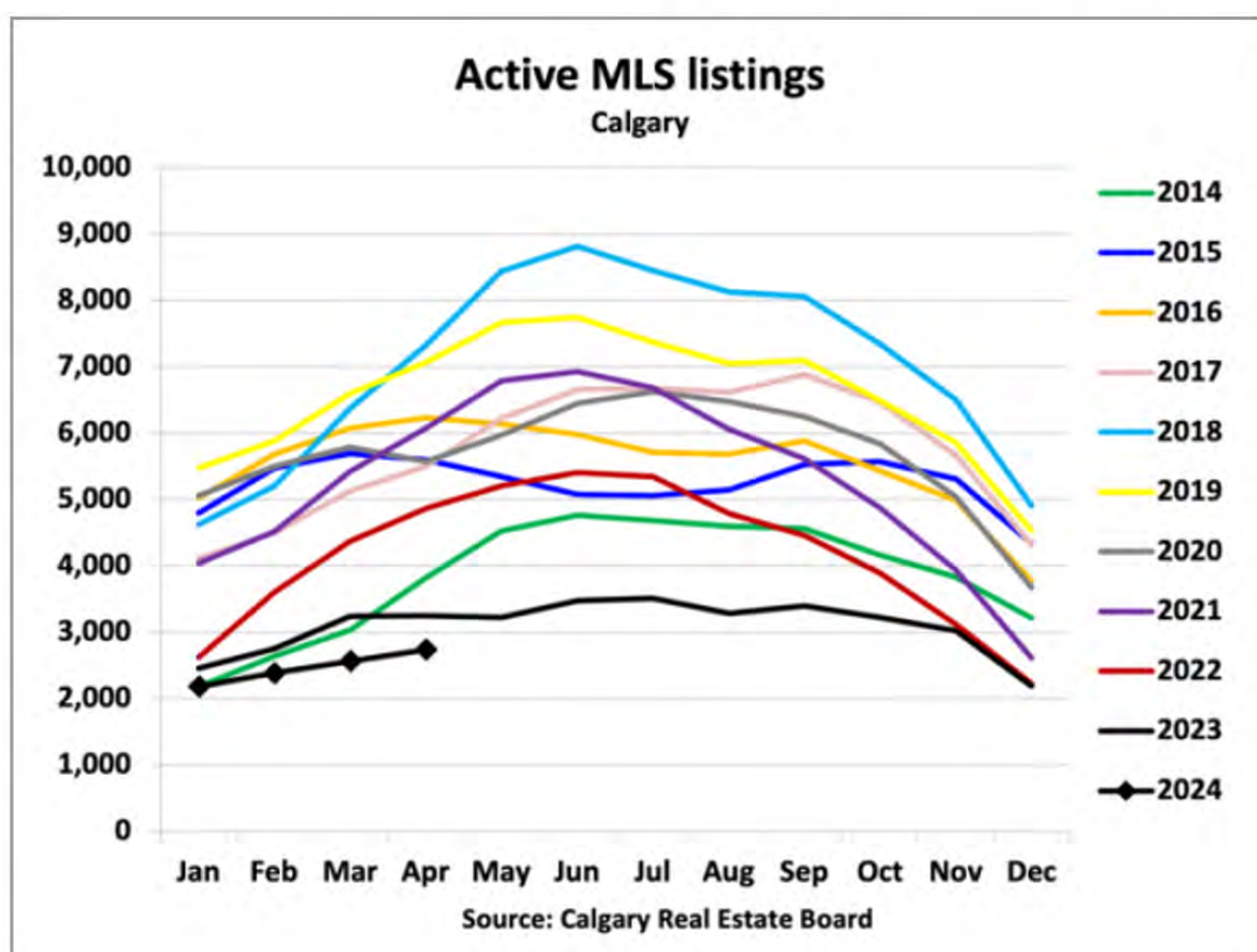


The sales-to-new listings ratio ticked down 90% in Calgary and rose above 80% in Edmonton to hit the second highest reading since 2006. Both markets are exceptionally tight, but only one is currently reflecting it in prices (that being Calgary while Edmonton is only starting to see price velocity).

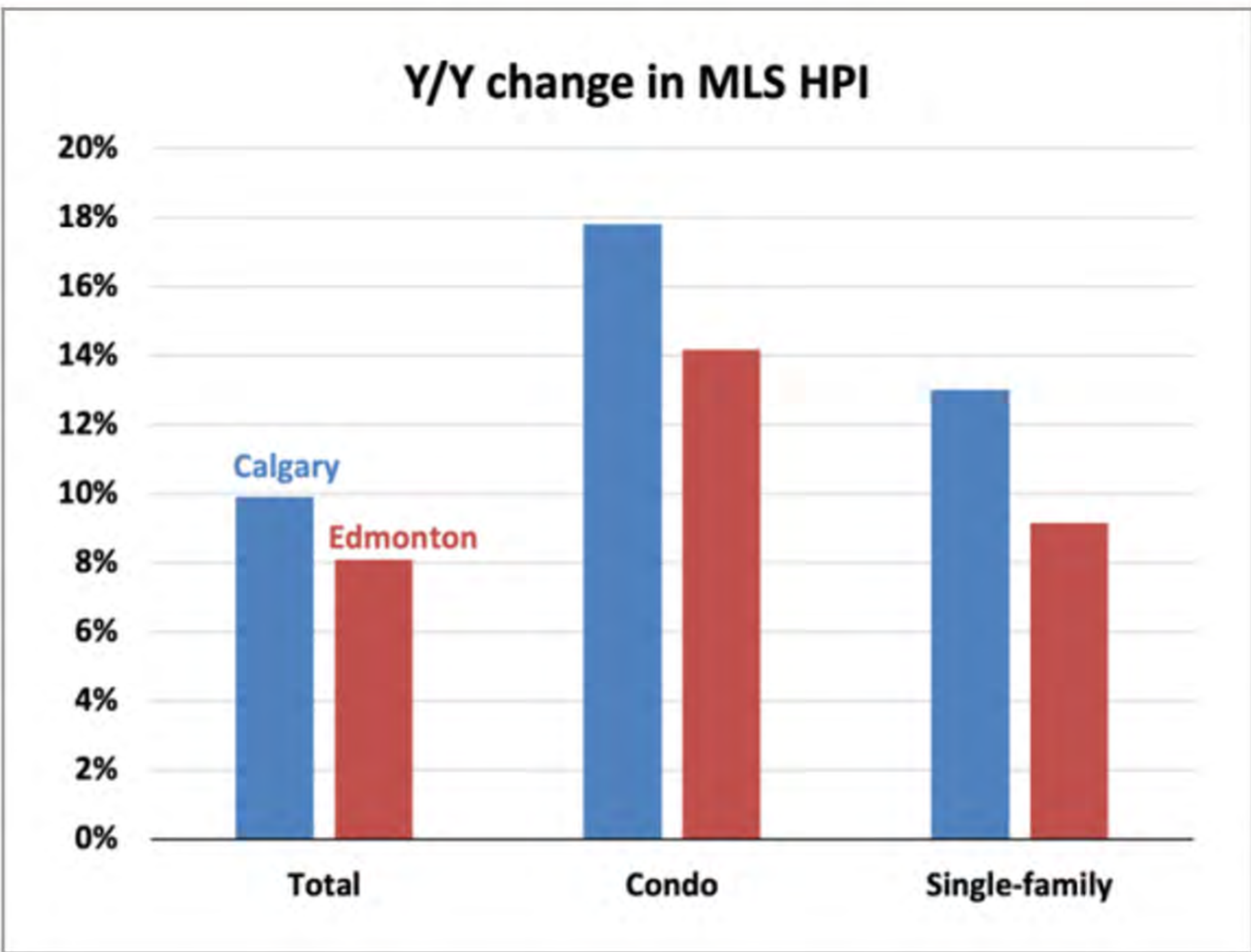
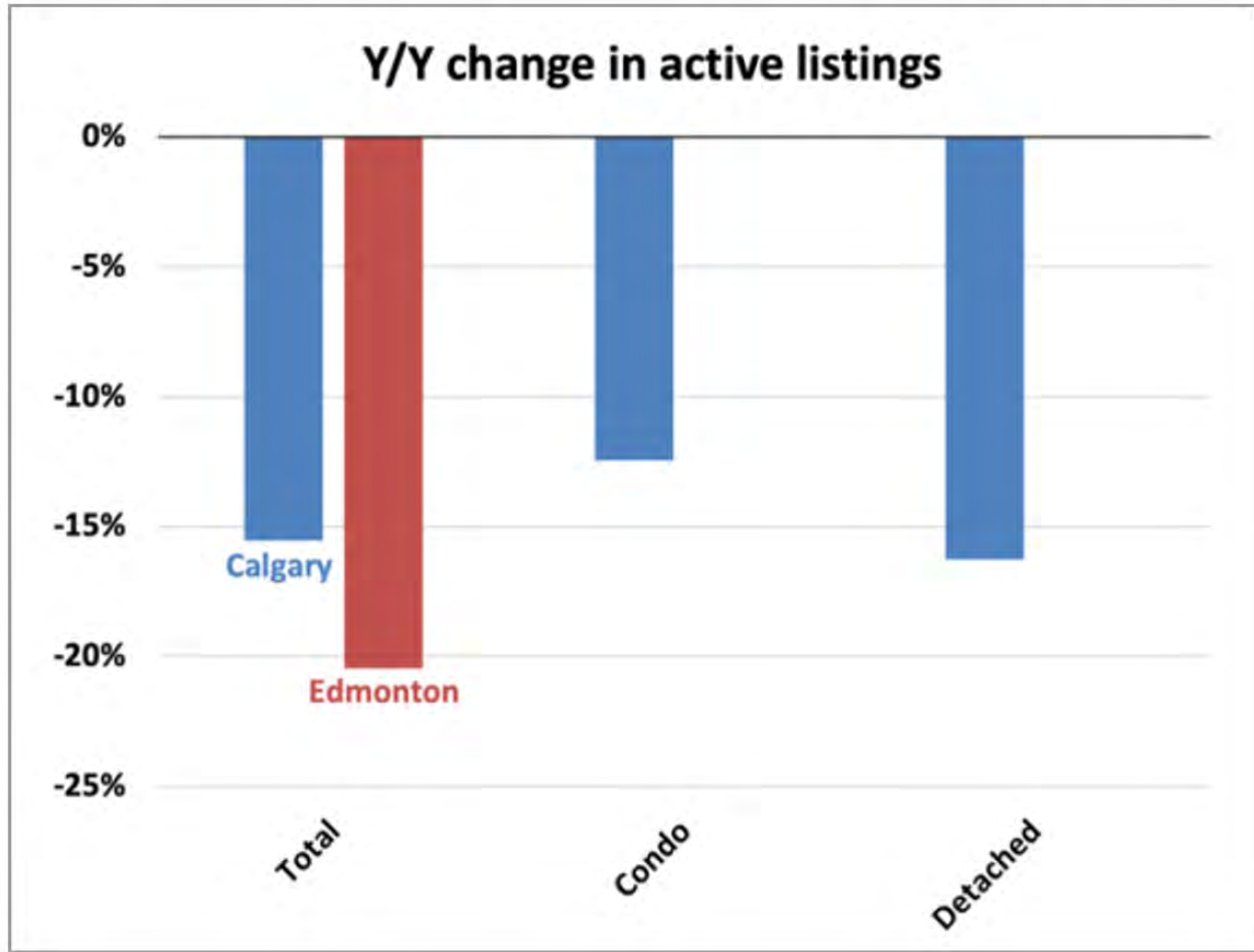


Still no inventory

The lack of resale inventory remains a story in both metros:

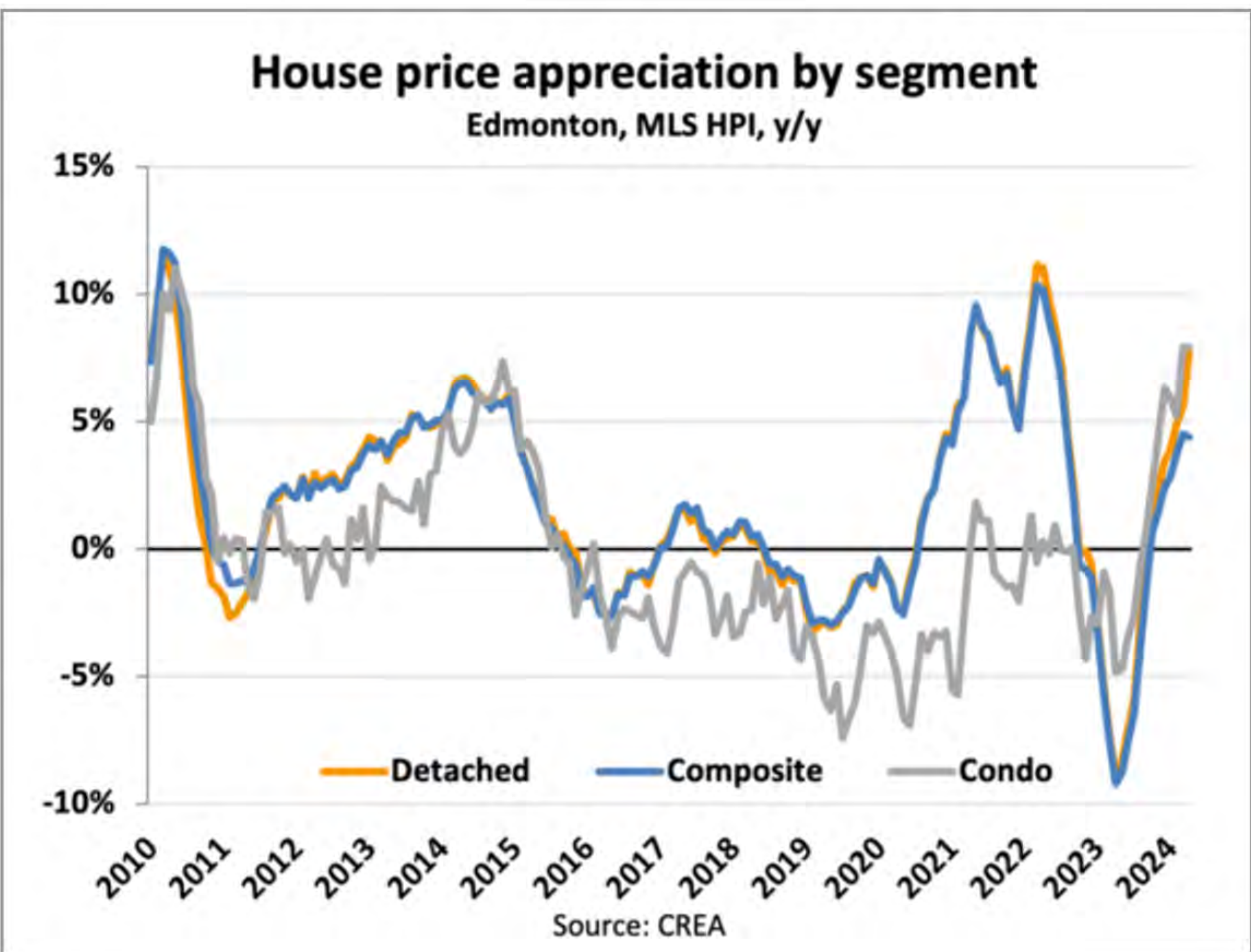
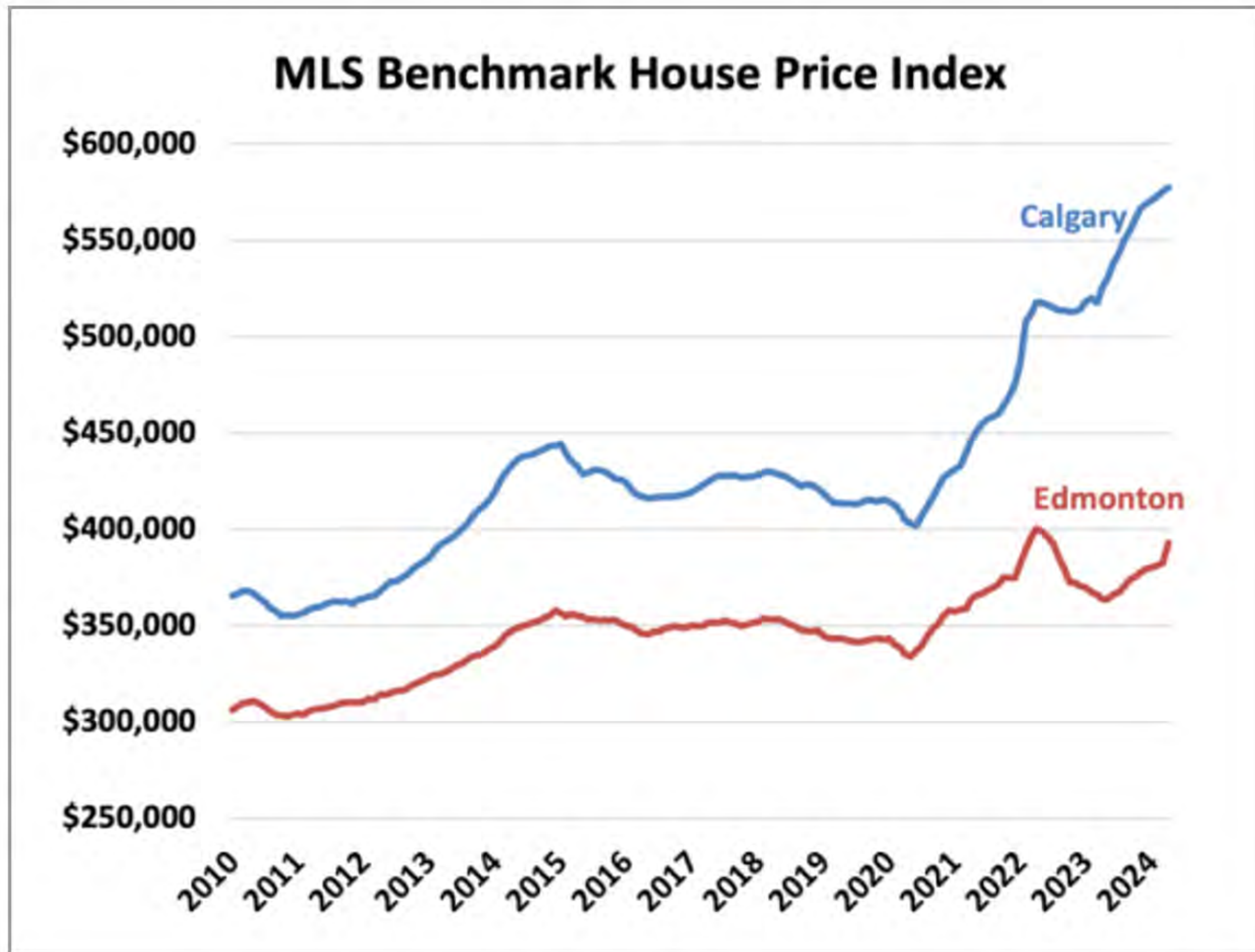
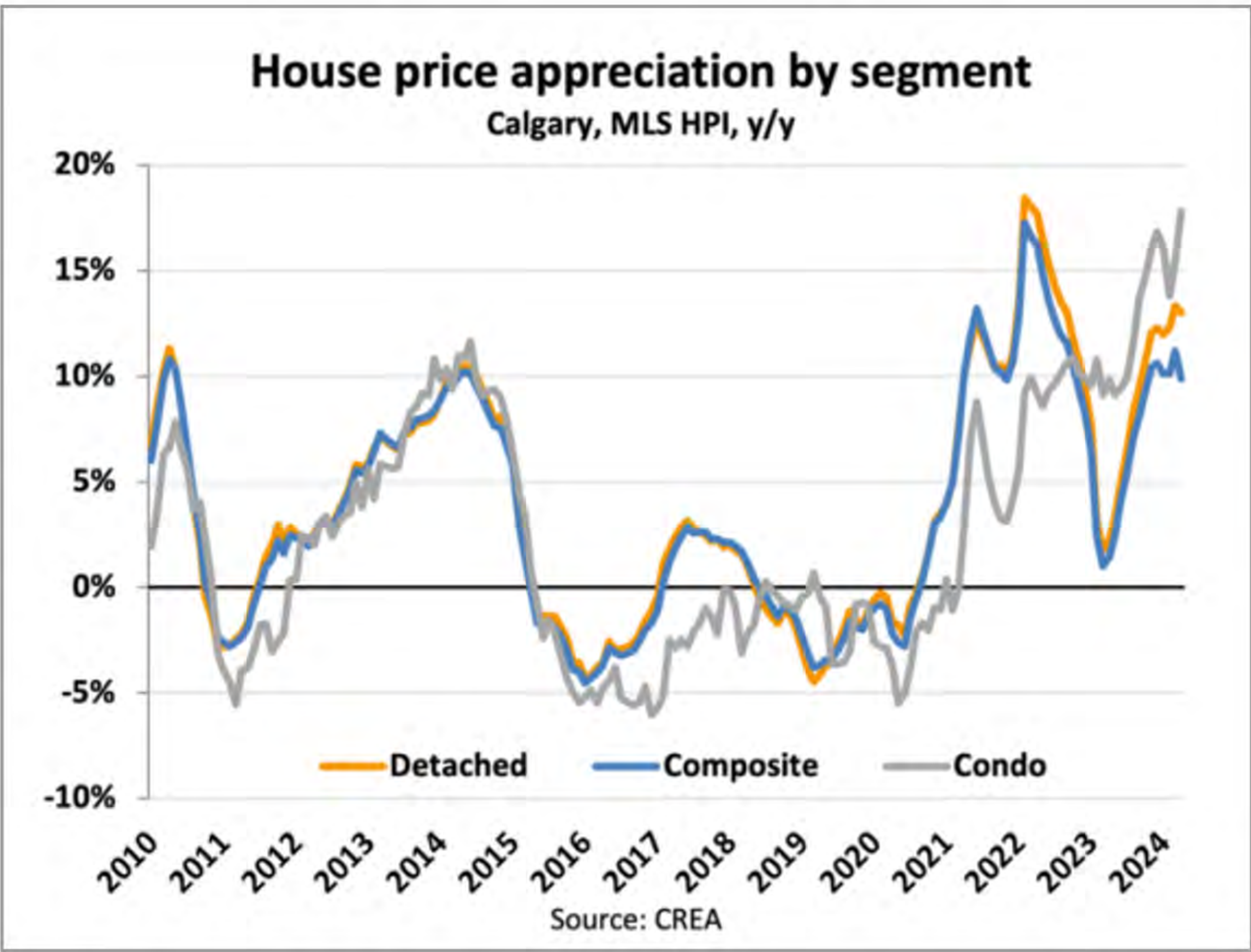


... but the y/y decline in now larger in Edmonton:



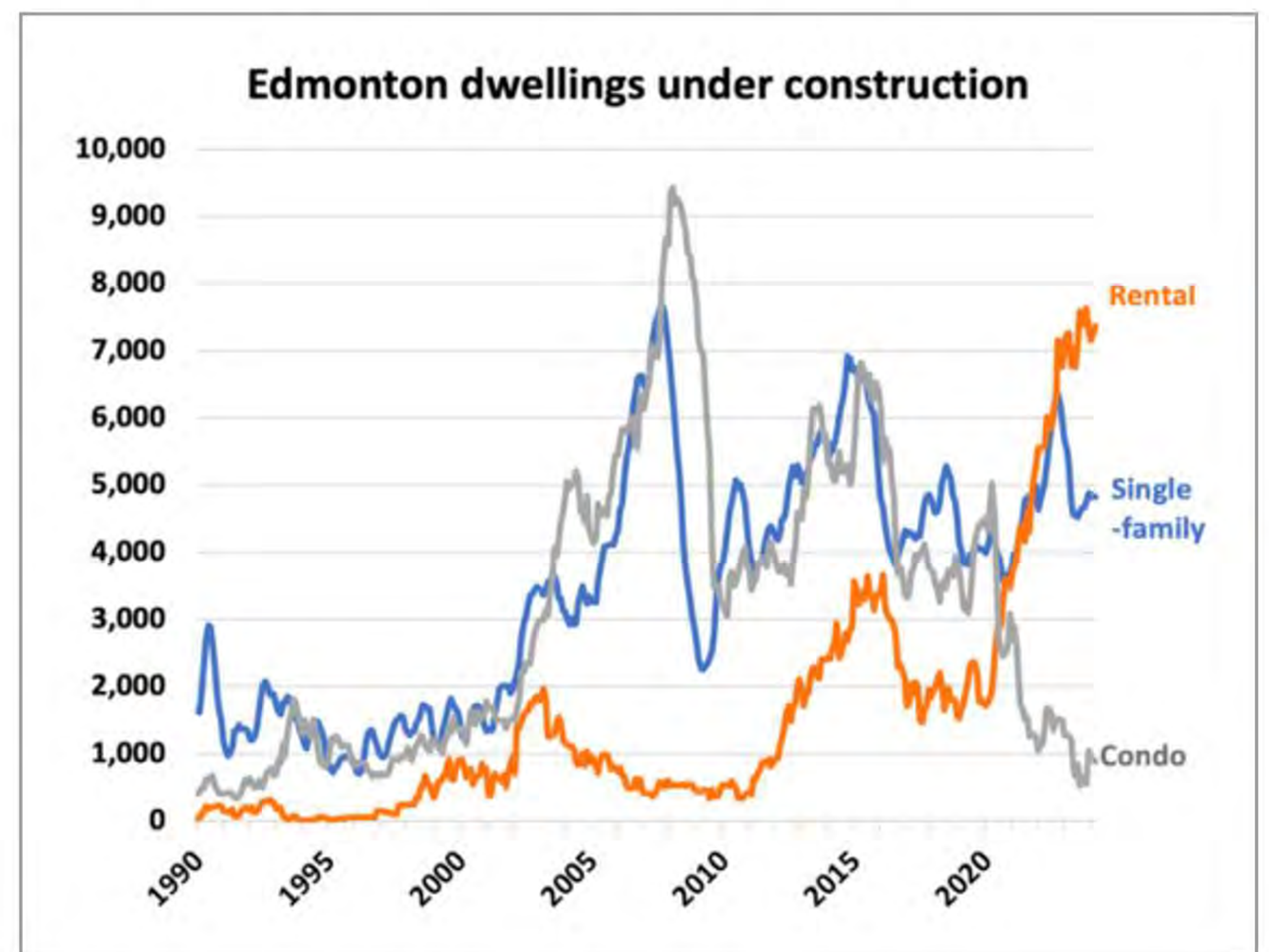
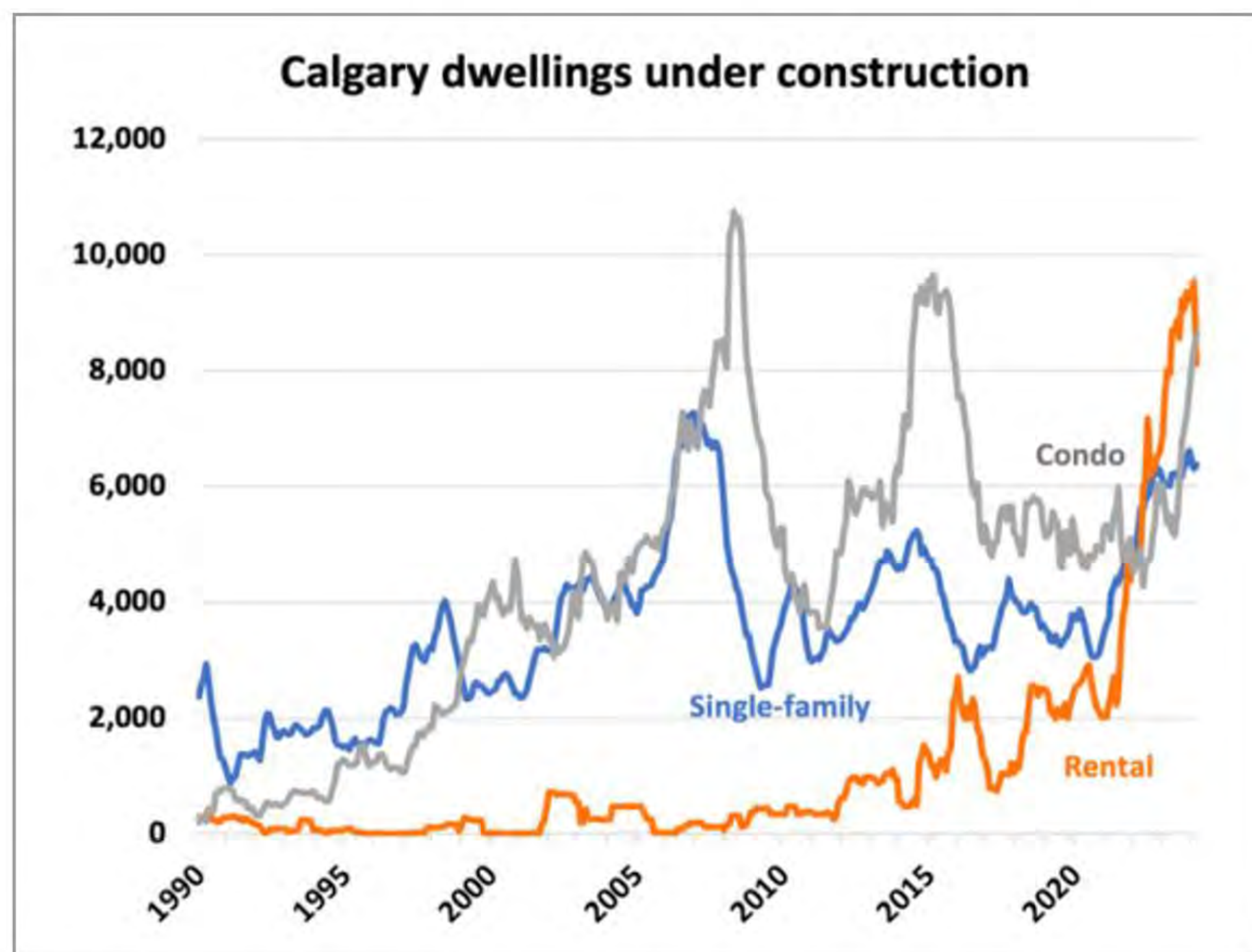
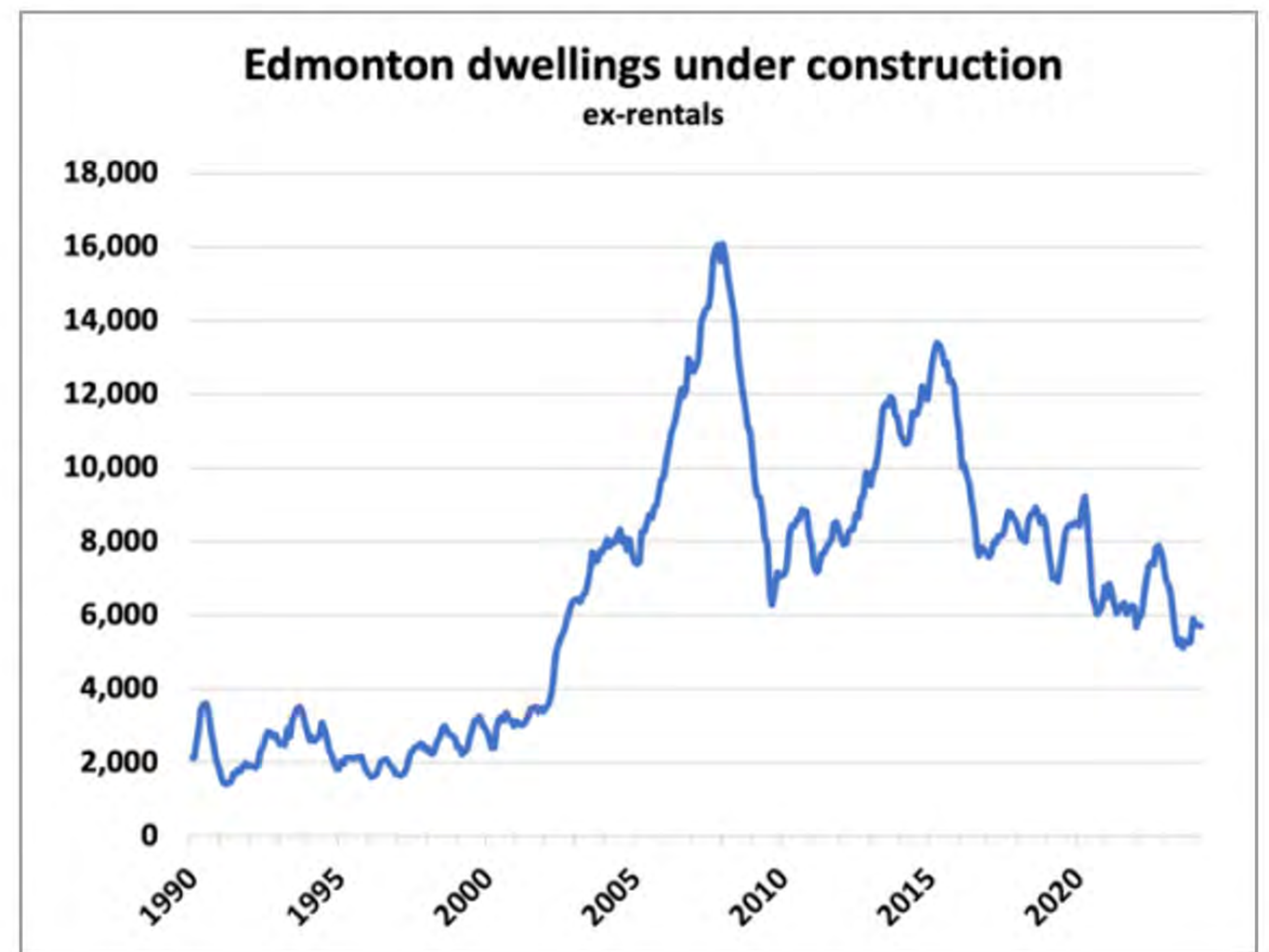
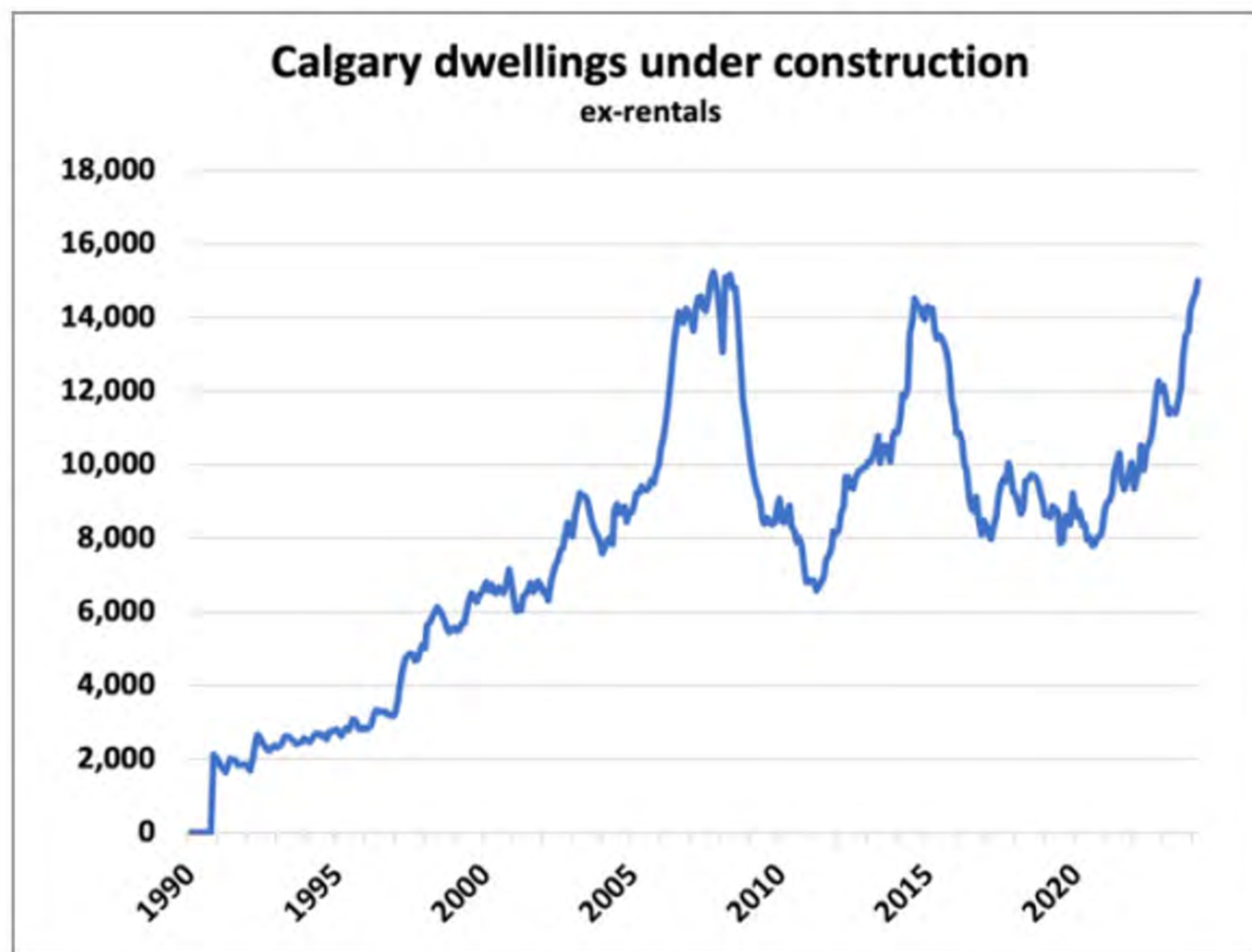
House prices surge

Price continue to surge higher in both Calgary (+10 y/y) and Edmonton (+8% y/y), but I suspect within the next couple months that the price growth crown will shift to the latter:



Construction activity declines in Edmonton, rised in Calgary

Ultimately both Edmonton and Calgary will do well over the next few years, but my call on Edmonton is due to it having a longer runway for the market to remain extremely tight given the trend in new construction. Homeowner dwellings under construction (ie condos + single family but NOT rentals) DECLINED 0.5% m/m in Edmonton where it remains near 20-year lows, while in Calgary it rose 2.4% in March and remains near all-time highs:



So I remain bullish on both but very, VERY bullish on Edmonton for now.