FOURTH QUARTER 2019

HOUSING MARKET DIGEST
ATLANTIC CANADA

MORTGAGE PROFESSIONALS CANADA

Resale Market

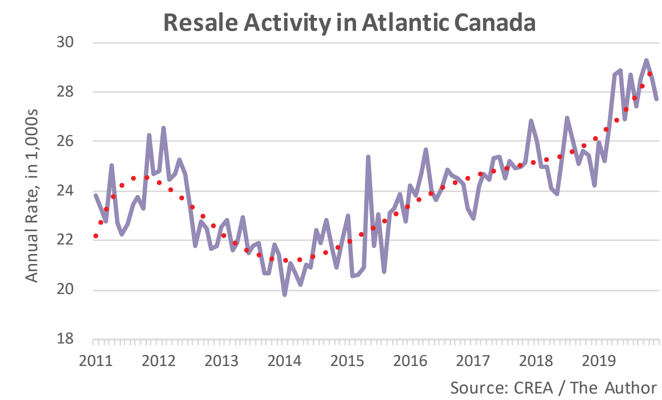
Resale activity remains very strong within the Atlantic Region. Recent rises in mortgage interest rates might have caused a rush into the market, to take advantage of pre-approvals before they expire. It does appear that the expansion phase may have ended (the rate for the fourth quarter was just fractionally higher than for the third quarter). There could be some slowing in the new year.

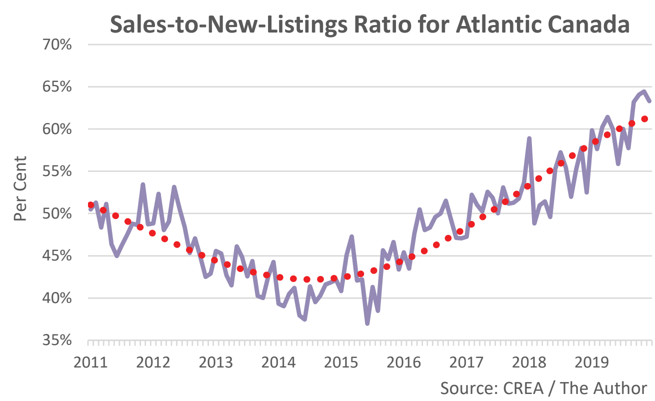
The recent strength has resulted from a healthy employment situation, and the excellent affordability that has resulted from a combination of modest prices and very low interest rates.

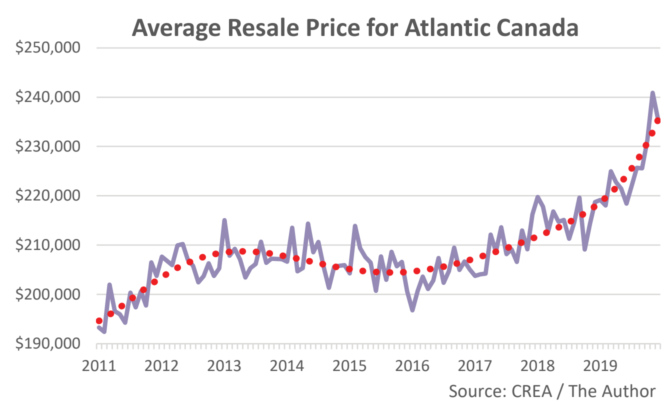
For the entire year, sales increased by almost 10%, setting a new annual record (about 27,700).

On a population-adjusted basis, sales in 2019 were 16% above the long-term (2001-2019) average.

The sales-to-new-listings ratio ("SNLR") continues to tighten, to 64% in the fourth quarter (versus 60%) in the third quarter). This is far above the threshold (estimated at 45%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Prices are responding to the shift in the supply-demand balance: the average price reported by the Canadian Real Estate Association ("CREA") has increased by 10% versus the fourth quarter of 2018. We can expect continued rapid price growth for a while yet.





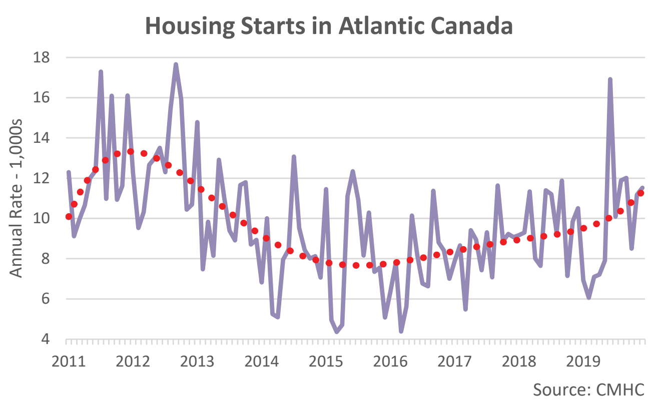


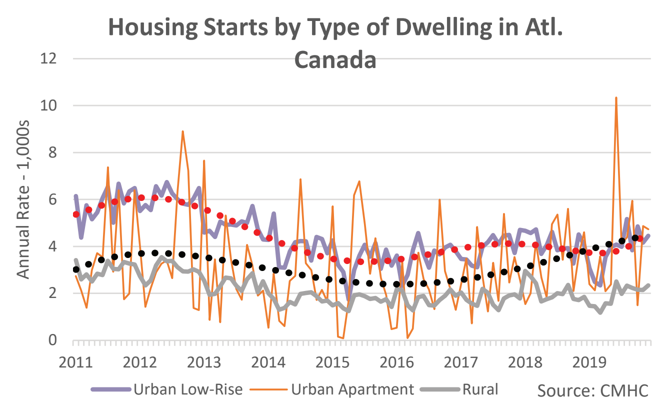
MORTGAGE PROFESSIONALS CANADA

Housing Starts

The rate of housing starts fell in the fourth quarter (to 10,400, versus 11,300 in the third quarter), but remains considerably stronger than was seen during 2014 to 2017. For the year, starts totaled 10,104, which was 9% higher than in 2018. In historic terms, this is a mid-range performance (7% below the 20-year average of 10,833).

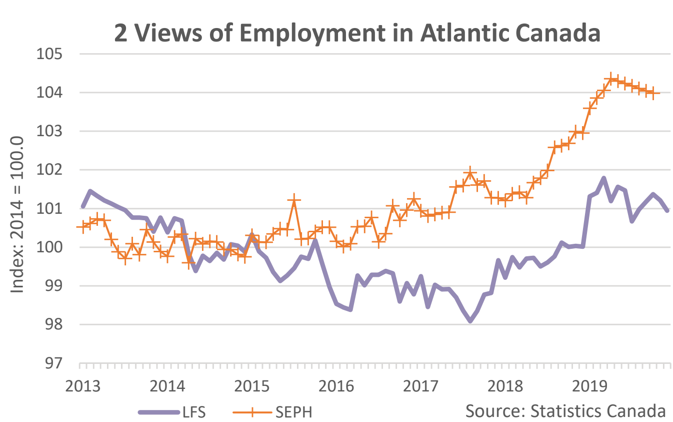
Starts of low-rise homes remain weak (particularly single-detached homes - for 2019, singles starts were 37% below the 20-year average). But, apartment starts have been quite strong (starts in 2019 were 57% above the 20-year average).

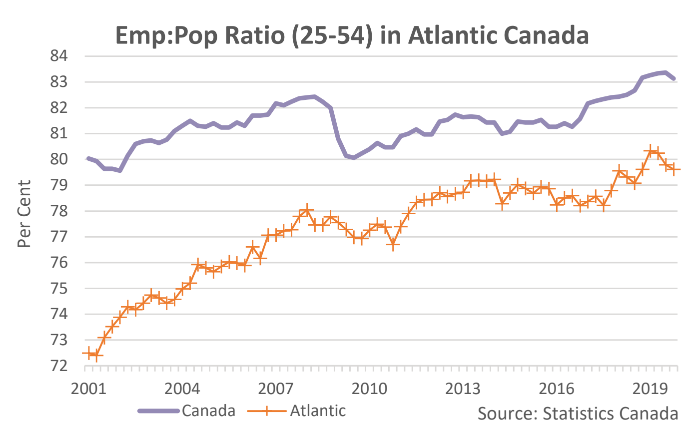




Employment Trends

Both of StatsCan's surveys of employment indicate that job creation has weakened in Atlantic Canada, with estimated drops during the past few months. The Labour Force Survey shows year-over-year growth at 0.9%. This data is as of December. The Survey of Employment, Payrolls and Hours shows 1.3% (as of October).



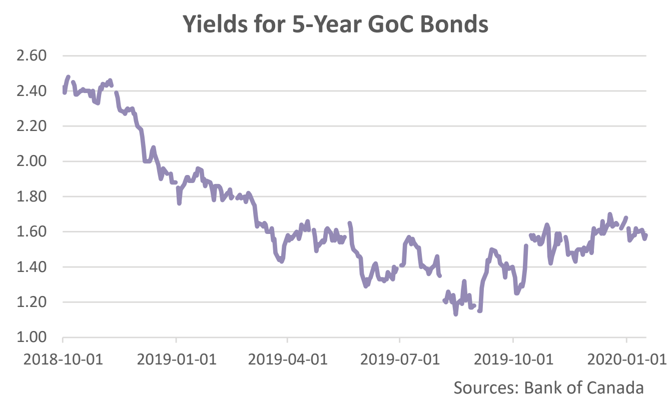


Employment Trends (Continued)

But, this slowing is occurring within conditions of considerable economic strength. The employment-to-population ratio for “prime working age” adults (25-54) has dipped, but remains quite high in historic terms, and this should be resulting in very strong home-buying and new housing construction.

Interest Rates

Bond yields are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.57% (as of January 16), within the range of 1.5-1.75% that I think is appropriate, and I don’t expect these yields to change materially during the next few months. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been 2.85% since early November.



The spread between mortgage rates and bond yields remains skinny (in the area of 1.2-1.3 points versus a long-term average of 1.8 points), due to intense competition. Variable rates are unchanged (my opinion-estimate remains at 2.95%).

Rental Markets

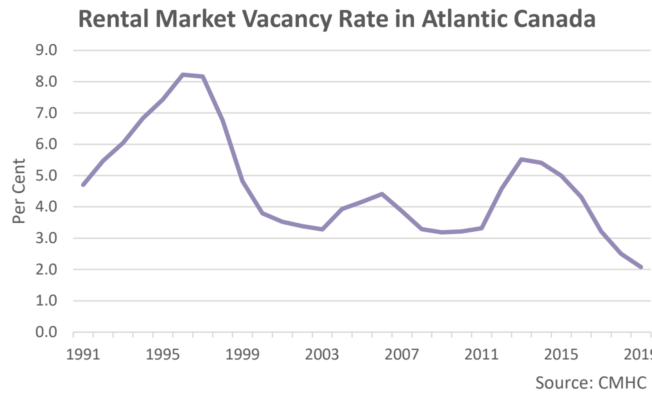
Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of Atlantic Canada, the October 2019 vacancy rate was 2.1%, which is the lowest figure of the past three decades. The average vacancy rate for the period shown in this chart is 4.6%.

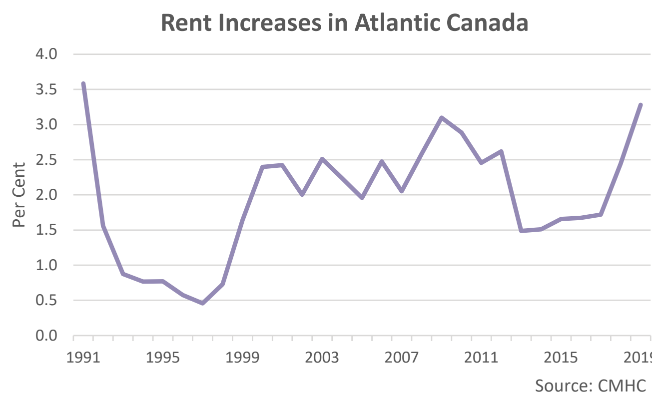
I attribute the reduction in vacancies during 2014 to 2019 to insufficient production of new housing. It’s not just construction of rentals: insufficient supply of housing for ownership reduces movements out of rentals. During 2019, there were just 10,359 housing completions, which is 20% below the 20-year average. Given recent strength in employment (and population growth), there is a need for above-average production of new housing. Based on trends for housing starts (as shown earlier) we can expect further reductions in vacancies (and continued upward pressures on rents).

Rental Markets (Continued)

CMHC estimates that rents increased by 3.3% during the past year, which is the second fastest rate of increase within this dataset.

Occasionally, comments are made that a healthy vacancy rate is 3%. I have investigated the origins of this, and as far as I can tell, this has never been supported by actual research. In response, I have calculated the statistical relationships between vacancy rates and rent increases. For Atlantic Canada, we should expect rents to increase by 2% per year when the vacancy rate is 4.4%. This is my opinion on a healthy ("balanced market") vacancy rate. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. For all of Canada, the estimated threshold is 3.7%.





Disclaimer of Liability