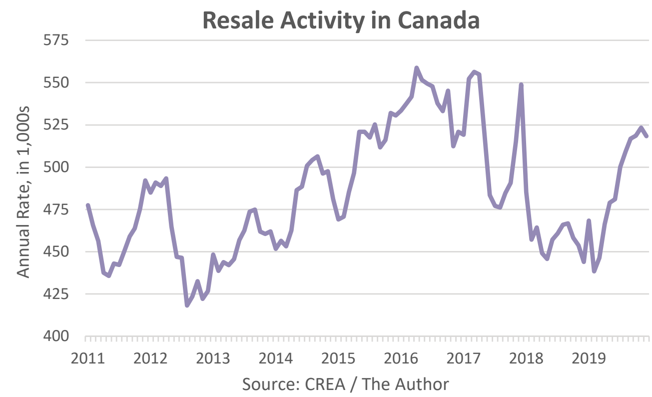
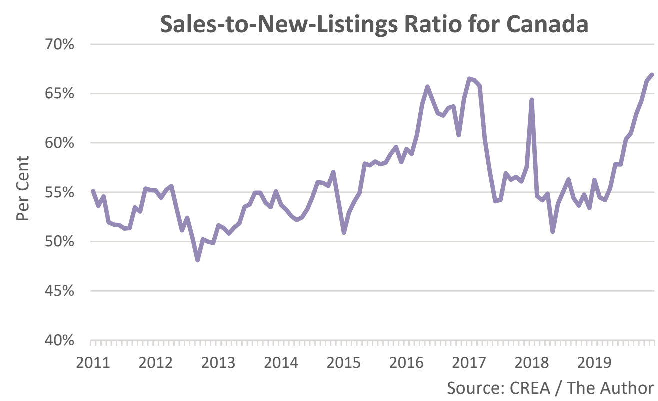
MORTGAGE PROFESSIONALS CANADA

Resale Market

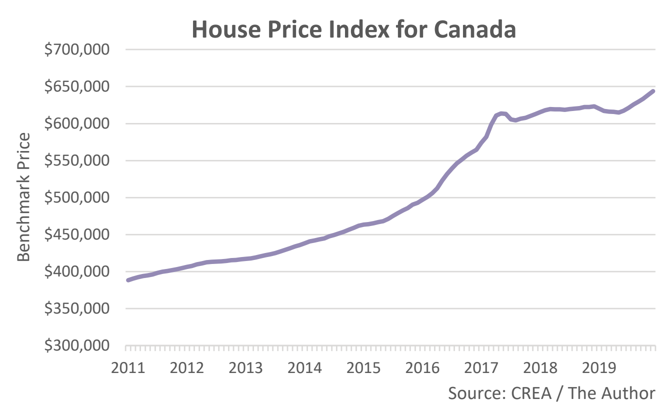
Resale activity improved strongly during the spring and summer, but has been roughly flat for the past four months. For December, the sales rate was 518,400. As commented previously, recent rises in mortgage interest rates might be causing a rush into the market, to take advantage of pre-approvals before they expire. Therefore, we might now be seeing the peak of the current wave of sales, and there could be some slowing in the new year. But, sales continue to recover in British Columbia, and Quebec is booming: those trends might provide a bit more growth in the national figures. Growth appears to have ended in the other provinces.



On a population-adjusted basis, the sales rate is now equal to the long-term average. As I've commented repeatedly, economic fundamentals are very positive (job creation has been robust during the past 3 years, population growth is at the strongest rate in a generation, and mortgage interest rates were sharply lower in 2019 versus 2018): we should be seeing activity well above average, not at or below average. The mortgage stress tests continue to weigh heavily on home-buying.



For the entire year, total sales (489,000) were 6% higher than in 2018. But, on a population-adjusted basis, sales in 2019 were 6.9% below the long-term (2001-2019) average. The national sales-to-new-listings ratio ("SNLR") continues to tighten, to 67% in December, which is far above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

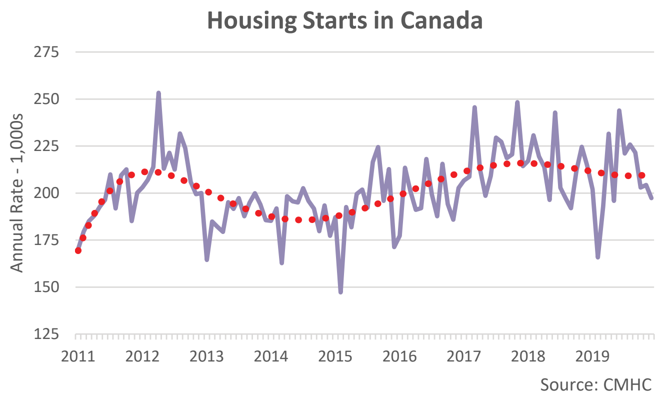


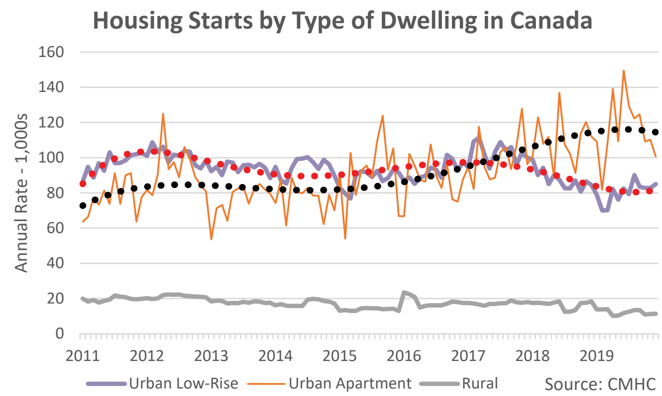
Prices are responding to the shift in the supply-demand balance: the House Price Index from the Canadian Real Estate Association ("CREA") has increased by just 3.3% compared to a year ago, but during the past seven months there has been an annualized growth rate of 8.1%. We can expect further acceleration of the year-over-year growth rate.

Housing Starts

The rate of housing starts was 197,300 in December. For the year, starts totaled 208,686, which was 2% lower than in 2018, and far below the 240,000-250,000 that is required (based on population growth).

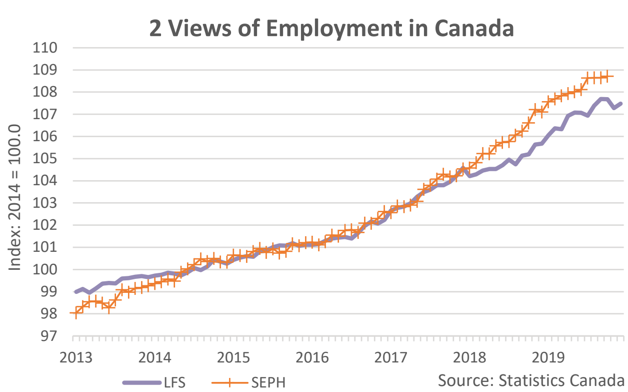
Starts of low-rise homes remain very weak (for all of 2019, starts of single-detached homes were 40% lower than the 20-year average). Apartment starts have been very strong (2019 starts were 56% above the 20-year average). The reduction in total starts during the fourth quarter is due to a slowing for apartments. It's still too early to say that the trend for apartments has turned down, but this data hints that apartment construction may now be responding to a drop in pre-construction sales of new condos.

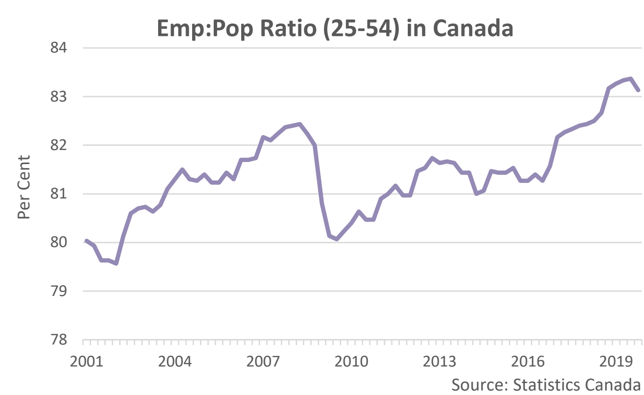




Employment Trends

Both of StatsCan's surveys of employment indicate that job creation has weakened in Canada. The Labour Force Survey shows year-over-year growth at 1.7%, but an annualized rate of just 0.8% (annualized) over the past 8 months. This data is as of December. The Survey of Employment, Payrolls and Hours shows 2.0% year-over-year growth (as of October), but with little change during the last three months. Other major economic indicators are showing weak growth in recent times.





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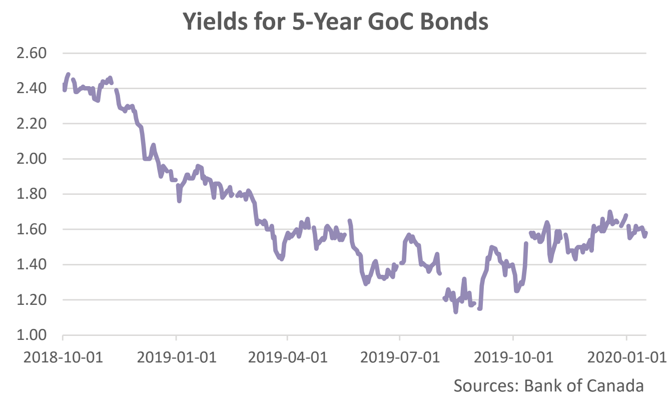
Employment Trends (Continued)

But, this is all occurring within conditions of considerable economic strength. The employment-to-population ratio for "prime working age" adults (25-54) remains very high, and this should be resulting in very strong home-buying.

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

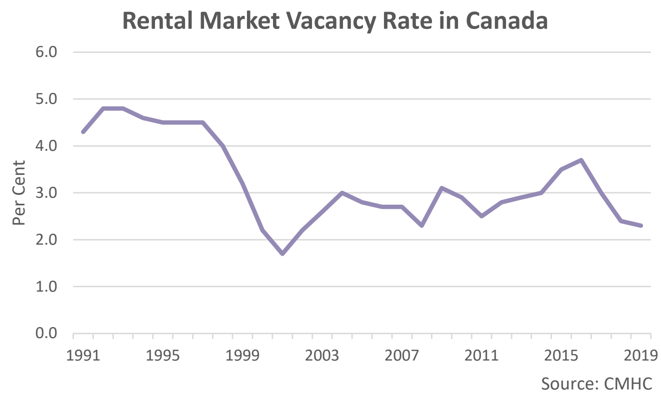
Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of Canada, the October 2019 vacancy rate was 2.3%, which is the fourth lowest figure of the past three decades. The average vacancy rate for the period shown in this chart is 3.2%.

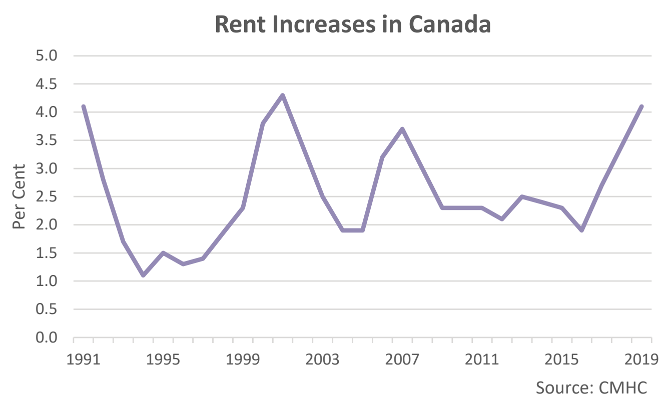
I attribute the reduction in vacancies during 2017 to 2019 to insufficient production of new housing. It's not just construction of rentals: based on population growth, we currently need 240,000-250,000 new dwellings per year. But, during 2019, there were just 187,000 housing completions. Based on current trends for housing starts (as shown earlier) we can expect further reductions in vacancies (and continued upward pressures on rents).

CMHC estimates that rents increased by 4.1% during the past year, which is the second fastest rate of increase within this dataset. During the past 20 years, rents in Canada rose by an average of 2.9% per year.

Rental Markets (Continued)

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 Canada, we should expect rents to increase by 2% per year when the vacancy rate is 3.7%. This is my opinion on a healthy ("balanced market") vacancy rate for Canada. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. There is a bit more discussion of this in the regional editions of Housing Market Digest for the 4th quarter of 2019 (and probably in the "Annual State of the Residential Mortgage Market in Canada", which should be published in February).





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