**MARKET UPDATE:  March 5th, 2020:**

Hello Again!  I hope you are all doing well!

The Bank of Canada (BOC) met yesterday.  As of a few weeks ago, analysts were unsure whether the BOC would lower rates at this meeting or wait until the next meeting in April.
But the Coronavirus (Covid 19) has taken over the news and the world over the last couple of weeks.
The US Fed (America's equivalent to the BOC) had an emergency meeting yesterday and decided to lower their Overnight rate by 0.50%.
So the BOC decided to follow suit.  After sitting on the sidelines for the past 8 meetings, dating back to October 2018, the BOC has decided to lower the overnight rate by 0.50% as well.  And in a surprising move to me...as of this moment, it appears most of the big banks (and therefore the little lenders will follow) will actually drop their Prime Rate by the full 0.50%!  So, currently the Bank Prime Rate now sits at 3.45% at every lender (except TD...who's Prime Rate is now at 3.60%).  That means about $40 less interest a month for every $100k you owe on a line of credit.
And on top of this big drop by the BOC yesterday, it is expected that there will be more drops still to come this year....with another 0.25% drop expected to come as soon as the April BOC meeting.

Fixed Mortgage Rates have already come down a bit since the last BOC Meeting in January.  Back then we were looking at 5 year fixed rates at 2.84% for purchases with less than 20% down payment.  That rate is now down to around 2.59%.
For purchases with 20% down payment, the going rate 6 weeks ago was around 3.09%.  That is now down to around 2.79%.
In reality, spreads have improved by about 0.75% since January 1st, but fixed mortgage rates have only come down about half that amount, so there was plenty of room for more drops in fixed rates, even before yesterday's BOC announcement, which should improve spreads even further.  I definitely expect to see fixed mortgage rates drop a number of times over the coming weeks and months....and most likely the drops will start tomorrow or Monday.

**HERE IS WHAT THE BOC SAID ABOUT COVID 19:**

*Before the outbreak, the global economy was showing signs of stabilizing, as the Bank had projected in its January* Monetary Policy Report *(MPR). However, COVID-19 represents a significant health threat to people in a growing number of countries. In consequence, business activity in some regions has fallen sharply and supply chains have been disrupted. This has pulled down commodity prices and the Canadian dollar has depreciated. Global markets are reacting to the spread of the virus by repricing risk across a broad set of assets, making financial conditions less accommodative. It is likely that as the virus spreads, business and consumer confidence will deteriorate, further depressing activity.*

And many economists have said that the Federal Government now needs to step up to help the situation.

Some ideas floating around are ramping up child care payments, providing sick leave benefits or simply increasing transfers to the hardest hit regions of the country affected by the virus.

Despite the lower rates from the BOC, I'm not sure these Rate Drops are going to fix the problems our economy is having.
Lower rates aren't going to get China up and running again, and fix disrupted trade and supply chains. Any Canadian company or Commodity that exports to China still has lost one of their biggest clients (and in many cases, their biggest client) until Covid 19 is under control.
And oil prices have dropped drastically over the past couple of months as demand is drying up. That isn't going to be fixed either by lower rates.
So while these rate drops might help other parts of the economy, they are not going to help the big issues that our economy is facing at this point.
BUT IN THE LEAST, when the world economies do start improving, these lower rates will help the economy rebound more quickly.

The BOC has been hesitant to lower rates as they were afraid this would overheat the housing market again and get some consumers in over their head with too much debt. So they might have just thrown gasoline on that fire.
But in reality, we were already seeing the housing market heat up over the last number of months. Demand is so much higher than Supply right now, so we were having bidding wars in most parts of the GTA. It seems that should only get worse now.
A good time to be trying to sell your home....not so easy to try to buy a home though!

In other mortgage news, the Federal government has tweaked the rules of their "Stress Test". Previously we qualified for mortgages at the 5 year posted rate (which today is 5.19%). That is about 2.5% higher than the rate the client is going to get. Of course it ensures that clients don't get in over their heads and can still afford mortgages in 5 years when it comes up for renewal at a much higher rate!
(Like rates 2.5% higher was ever going to happen! I think I might have mentioned that in previous updates).

Come April 6th, anyone purchasing with less than 20% down payment, will now qualify at the "Weekly Median 5 year fixed rate on insured mortgages...+ 2%". (That is quite the mouthful!)
So what the heck does that mean?!?
Well the truth is, we aren't 100% sure yet, as in typical government fashion, the announcement was a little light on details.
BUT, if the rule kicked in today, instead of a month from now, analysts believe it would mean a client is qualifying at a rate of around 4.89% instead of 5.19%.
That will improve what someone qualifies for by about 5%. I guess every bit helps, though with crazy high house prices, it isn't going to help enough most likely.

For Purchases with 20% down payment or more, no rule changes have been announced as of today.

Though OSFI (the governing body who came up with the Stress Test) is working on it, and I expect a new rule for these mortgages in the coming weeks as well.

***IN GTA REAL ESTATE NEWS:***

*Toronto. March 4, 2020....Greater Toronto Area REALTORS® reported 7,256 residential transactions through TRREB's MLS® System in February 2020, representing a 45.6 per cent increase compared to a 10-year sales low in February 2019. However, February 2020 sales were still below the 2017 record result. Year-over-year sales growth, for the GTA as a whole, was strongest for ground-oriented home types.*

*After preliminary seasonal adjustment, February 2020 sales also exhibited positive momentum, up by 14.8 per cent compared to January 2020.*

*"Sales growth will be strong this year. TRREB's forecast published in its Market Year in Review and Outlook Report on February 6, is calling for 97,000 sales in 2020. However, the annual pace of sales growth experienced in February will likely not be sustained throughout the year, because we will be making comparisons to much stronger sales results reported after the first quarter of 2019," said Mr. Collins.*

*New listings amounted to 10,613 in February 2020, a 7.9 per cent increase compared to February 2019. This moderate annual growth rate was much smaller than that reported for sales, which means market conditions tightened considerably over the past year.*

*"Sales growth well in excess of listings growth is once again the norm. This is because the temporary effects of the 2017 Ontario Fair Housing Plan and the OSFI mortgage stress test have largely worn off. However, while these policies were running their course, the well-publicized housing supply problem in the GTA continued unabated. All levels of government have acknowledged the supply problem, but we need to very quickly move from policy briefs to shovels in the ground," said TRREB CEO John DiMichele.*

*As market conditions tightened over the past year, competition between buyers has clearly increased. This resulted in a further acceleration in year-over-year price growth in February. The MLS® Home Price Index Composite Benchmark was up by 10.2 per cent. The average selling price for all home types combined was up by 16.7 per cent to $910,290. Double-digit average price growth was experienced for most major market segments, including detached houses and condominium apartments.*

*"TRREB's current average price forecast is for 10 per cent price growth to $900,000 in 2020. While this outlook represents a very robust pace of growth, it is possible that further tightening in the detached market segment could push the overall average selling price above TRREB's baseline scenario. This could unfold if sales growth continues to outstrip new listing growth to the degree it has so far in 2020," said Jason Mercer, TRREB's Chief Market Analyst.*

So again...not much has really changed this month in the GTA Real Estate Market. Demand continues to drastically outpace Supply, which is driving up prices throughout the GTA and creating bidding wars in most parts of the city and the suburbs. That most likely won't change for the next while as listings don't tend to improve until the spring. And lower rates are here (and even lower rates appear to be coming). So that is only going to further increase demand for homes.

We simply need more Supply. And I believe that is only going to be fixed at a government level (all 3 levels). More listings will help. But if we have 200,000 people moving into the GTA every year, having 10,000 new homes built isn't going to do the trick. This problem is not going to be fixed until our government changes some of the rules. Municipalities need to consider changing rules to increase high-density construction in the burbs.
Having said that even if they do change the rules it isn't like you can build a condo in a minute.

I fear this problem is going to be around for a while...many years most likely. And it is only going to get worse as our population increases.

The government has been focused on Demand issues to fix the over-heated housing problem in the GTA. All along the issue has been Supply. We have been fixing the effect and not the cause. So it should have been easy to see these solutions that OSFI and the government have come up with, were not going to fix the problem. They only provided a temporary reprieve.

Fortunately, it isn't just Luke, the Mortgage Broker, Mortgage Agents and Realtors of the country that are calling on changes to Supply now. We have seen RBC's CEO, Scotiabank's CEO and many of the Chief Economists of the Big Banks speak out about this in the last month.
Here's hoping our government listens to them. Because they sure haven't been listening to us lowly Brokers and Agents!

So that is it for this month. The next BOC Meeting is on April 15th, so I will be in touch after that.

I hope you have an amazing month! Stay warm and Stay healthy!
WASH THOSE HANDS!
Take care,

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