MARKET UPDATE: March 11th, 2021:

Hello Again!
I hope you are all doing well and staying healthy, safe and sane in these fun times!
At least we are starting to open up again and the weather is getting warm!

A REMINDER…Clocks go forward on Sunday the 14th. I know anyone with young kids is thrilled with this news! It should only take you until October to get the kids sleeping properly again! 😊

This update is going to be a little longer than most. I got to listen to a chat from an economist I trust and respect and I wanted to share the insights he provided as I thought it would be of value to many of you. FYI

The Bank of Canada (BOC) met yesterday and decided not to change rates again this month. They already lowered their Overnight Rate by 1.5% back in March of 2020. It appears we will be at this level for a long time until the economy is on strong enough footing to start increasing rates again...which could/should be years off. Most economists AND the BOC are still predicting 2023 at the earliest.

The economy made it through the lockdown MUCH better than expected. And now the BOC is expecting positive growth in the first quarter of this year. Previously in January, the BOC had said GDP would be down for the 1st quarter of 2021. Growth was up 9.6% in Q4 of 2020!
But that doesn't mean the BOC will be raising rates any sooner than previously expected. Unemployment is still up around 10% and they want to get that back down to more normal levels (around 6.5%). And Inflation…while increasing…is not a worry at this point. It is expected that any increases in inflation will only be temporary. Unless Inflation takes off and is sustained, there will be no reason for the BOC to raise rates.

What some analysts were looking for in this meeting, was whether or not the BOC would ease up a bit on their QE (Quantitative Easing) Program….in which they are buying $4 billion a week of government bonds to help put money into the economy and keep rates low. They will eventually taper this off, but that hasn't happened yet. They still feel the economy needs this extra stimulus. When they do taper it off, we will most likely see pressure on fixed mortgage rates to go up.

Speaking of fixed mortgage rates, they actually did increase over the last couple of weeks. All lenders have raised fixed rates by 0.25%-0.50%. But Variable mortgage rates actually improved at the same time.
Why did fixed rates rise?? I'm thinking maybe optimism about the pandemic ending sooner rather than later? But the cost of funding went up for fixed mortgages, and that means lenders pass that cost on to you the consumer.

So we are now seeing the 5 year fixed term at 1.84% (Up from 1.54%) for purchases with less than 20% down payment. The 5 year variable term for purchases with less than 20% down payment is now at

1.35% (or Prime less 1.10%). For purchases with 20% down, the 5 year fixed rate is up to 1.99%-2.09% …depending on your amortization. This is up from around 1.74%. And the 5 year variable term for Purchases with 20% down payment is now at Prime less 0.95% (1.50% today) to Prime less 1.05% (1.40% today)…again depending on your amortization. It appears this is the start of things to come. From where I sit, it seems unlikely fixed rates will come back down. But, we are still well below the best rates of all time PRIOR to the pandemic.

The big news over the last 6 weeks has been the housing market. As a whole in Southern Ontario it is up about 13%-15% year-over-year. But in many neighbourhoods it is up 20%-30% in the last year! It is quite a tough time to be a buyer and win a home of late!
We are not quite as hot as it was at the beginning of 2017, when the entire market was up about 33%. You might recall that Premier Wynne came out with a bunch of rules at that time to slow things down. Markets quickly dropped back down about 14% at that time. But that drop was short-lived and things started to head back up again after a number of months.
It is very likely something like that might happen again if home prices continue to appreciate at unsustainable levels.

There has been new rules introduced in Australia and New Zealand recently and Canada is keeping a close eye on how things shake out down there. One rule change was to increase the size of the minimum down payment on Investment Property purchases to 40% from 20%. So we could see a rule change like that coming to try to slow down the market.

The problem (as I see it) with the run-away housing market is that this issue isn't an easy fix. (If it was, it would have been fixed already!!)
We have spent the last decade trying to slow things down. But EVERY time, the government has done things to try to limit Demand. The problem has never been Demand! The problem is a lack of Supply! And that is not a quick/easy fix and really needs all 3 levels of government to work together and change many rules to fix. Even if rules are changed, it takes time to build the new homes. So I predict that any new rules introduced that will most likely try to slow down demand, are not going to slow down the market in the long-run.

Speaking of the Housing Market, I had the privilege of listening to Shaun Hildebrand (President of Urbanation) speak yesterday about the state of the housing market.
Here are the key takeaways from that chat:

-There was plenty of talk last year about major arrears coming when mortgage deferrals tapered off. As of the last update (in Nov.2020), Arrears are at record lows at only 0.10% in Ontario.

-Immigration is down 50% in 2020 vs. 2019. BUT the government has been aggressively targeting immigrants and has lowered the standards/targets for immigrants to achieve to come to Canada. The Federal Gov't Target is to bring in 401k people in 2021, 411k in 2022 and 421k in 2023. 34% of Immigrants tend to come to Toronto. MOST rent to start, but then seek to buy after they get settled.

So this will help bring up rent prices in Toronto, and eventually increase demand for homes once we can get through the pandemic.

-Toronto has been underbuilt by about 30,000 units in each of the last 3 years. This has been one of the contributing factors that has led to home prices increasing. Demand is so much greater than supply.

-Prices are going up because we have no supply. Most neighborhoods in the 416 and 905 have less than 1 month of supply of active listings. Back in November, the downtown condo market had as much as 3.5-5 months of supply and that is all gone! This should put pressure on downtown condos to increase in price if inventory doesn't improve quickly.

-The average Detached home is now worth $758k more than the average Condo in the GTA. This is a record high gap between the two. The previous high was in early 2017, and then we saw the gap narrow until the pandemic arrived.
This could mean that there is growth to be had in the condo market and that they could start to appreciate faster than detached homes going forward….(once we get through the pandemic and the intense desire for space isn't as important).

-He sees value in larger condos moving forward as they haven't appreciated as much as starter condos since 2017. This could be because they are more expensive and many people buying condos have bought the smaller condos as they are more affordable and easier to qualify for the mortgage needed.

-In Feb.2020, the average downtown core condo was worth 54% more than 905 condos. The difference is now only 29%. If people need to work at an office in Toronto (as opposed to working at home), this gap should widen again.

-Downtown Condo prices are down about 11.8% off their highs of about a year ago. 416 condos NOT in the downtown core are down 4% over the same time. 905 condo prices are up 5.4%. So we are seeing Investors start to flock back to buying condos in the downtown core as condos they appear "cheap" compared to a year ago.

-The cost per square foot of a resale condo in Toronto is about $959. For "New-construction" condos it is $1377 per square foot. This 44% gap has to narrow going forward, which most likely means resale condo prices have to go up.

-Renting a condo is now cheaper than owning one in the downtown core. Average cost of rent for a condo is $2104 a month in Q4 of 2020. The average monthly cost to own the same condo is up to $2624.
This is going to make it very hard for investors to have "positive cash flow" unless rents jump drastically. For a New Construction Purchase in Toronto, Investors will need a down payment of at least 40% to have positive cashflow. That means if they are buying a new build (and they are of late!), they are buying strictly for hope of a large price appreciation going forward.

-New Builds are taking off again in Toronto. We've seen as many projects start in the last 2 months as we saw in all of 2020.

-Vacancy in the 416 will drop as the pandemic ends. It will most likely take a few years, but there still aren't enough homes for everyone…especially when immigration ramps up again. This is going to put price pressure on rents going forward.

SOOOO…a lot to take in there. And much is speculation after going through the numbers….might not come to fruition! Though Shaun has been very accurate in the past and is very good at what he does.

What I take from that is that there might be value coming in downtown condos going forward…if we can get through this pandemic!
And also home and condo prices will most likely continue to climb quickly in the near-term unless the market is flooded with listings. Less than a month of active listings in most areas has to force prices up (as we have seen over the last year).

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, March 3, 2021 – Record home sales in the Greater Toronto Area (GTA) continued in February as buyers remained confident in their employment situations and took advantage of ultra-low borrowing costs. With multiple buyers continuing to compete for many available listings, double-digit annual price growth was the norm throughout the GTA, with stronger rates of growth in the suburbs surrounding the City of Toronto.

GTA REALTORS® reported 10,970 sales through TRREB's MLS® System in February 2021 – a 52.5 per cent increase compared to 7,193 sales reported in February 2020. Looking at all areas of the GTA combined, the condominium apartment segment led the way with a 64 per cent sales increase compared to last year, with similar rates of increase in the '416' and '905' area codes.

"It's clear that the historic demand for housing experienced in the second half of last year has carried forward into the first quarter of this year with some similar themes, including the continued popularity of suburban low-rise properties. It's also evident that the supply of listings is not keeping up with demand, which could present an even larger problem once population growth picks up following widespread vaccinations later this year and into 2022," said TRREB President Lisa Patel.

The MLS® Home Price Index Composite Benchmark was up by 14.8 per cent year-over-year in February 2021. Over the same period, the average selling price was up by 14.9 per cent to $1,045,488. While market conditions were tight throughout the GTA region in February, the detached, semi-detached and townhouse market segments in suburban areas were the drivers of average price growth, with annual rates of increase above 20 per cent in all three cases.

"In the absence of a marked uptick in inventory, the current relationship between demand and supply supports continued double-digit average home price growth this year. In addition, if we continue to see growth in condo sales outstrip growth in new condo listings in Toronto, renewed price growth in this market segment is a distinct possibility in the second half of the year," said TRREB Chief Market Analyst Jason Mercer.

"The pandemic has not stunted GTA residents' appetite for owning a home. Once the economy opens further and immigration into the GTA resumes, there will be an even greater need for housing supply. Understandably, COVID-19 has been front and centre for policymakers. However, it will be important to build upon the proactive work already started by local and provincial governments to promote the development of a more diverse and affordable housing supply in our region," said TRREB CEO John DiMichele.

SOOO…not really much has changed over the last number of months.
Not enough Supply and way too much Demand = Lots of sales and prices going way up.
The only real change is that inventory in the condo market in Downtown Toronto is now down to the low levels we are seeing in single-family-homes. That will start to force prices up in this segment going forward.

We just need more Supply. That is the only true fix here. And I don't see that problem being fixed for a LONG time.

So that is it for this month. The next BOC Meeting is on April 21st, so I will be in touch after that.
Be well! Stay safe!
And have a great month!
Take care,

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Your mortgage....Consider it done!

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