

CANADA HOUSING QUARTERLY CHARTBOOK

October 2023

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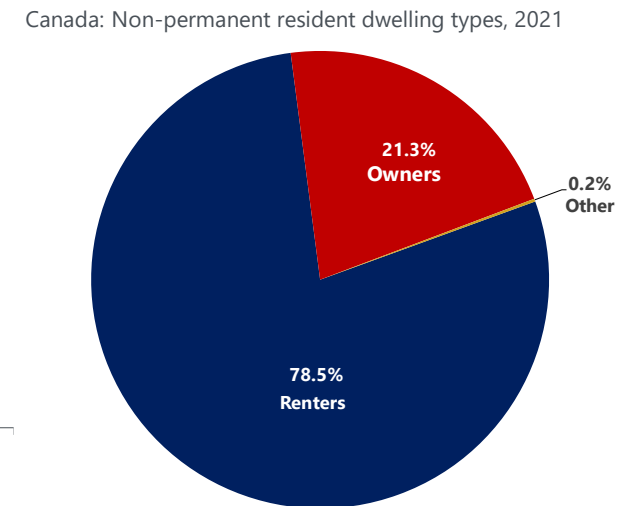
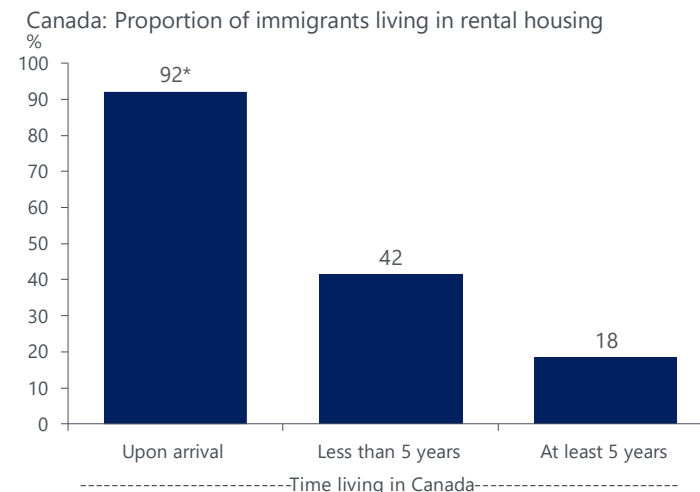
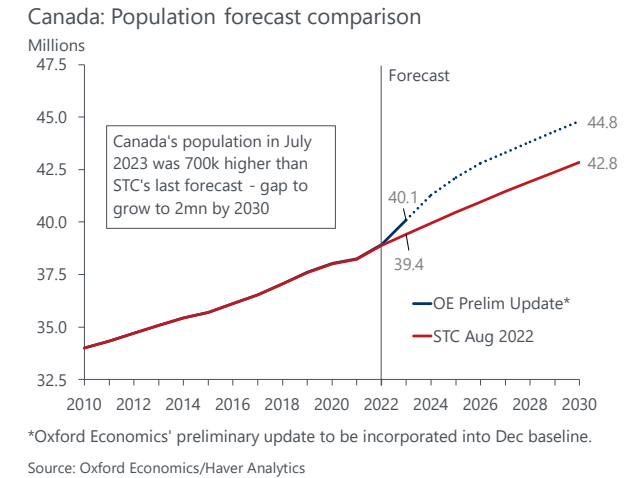
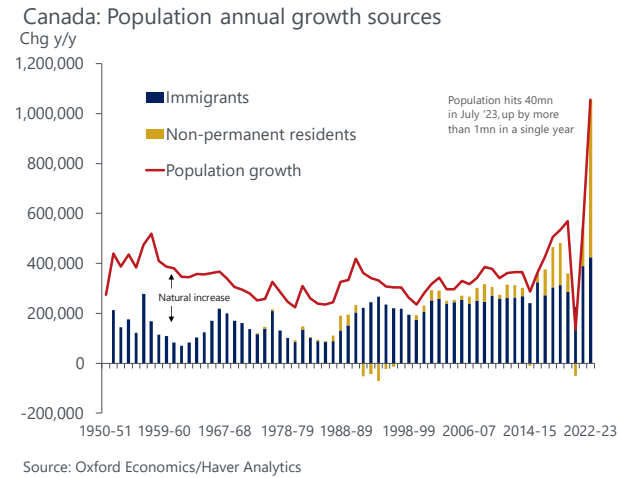


Contents

Housing spotlight:	<u>Surging newcomers initially boost rental demand</u>	3
Housing baseline outlook:	<u>Residential downturn to continue into 2024</u>	4
Housing scenario:	<u>Global asset price crash is a major downside risk</u>	5
Metro update:	<u>Affordable metros are seeing price increases</u>	6
Housing affordability:	<u>Housing will remain out of reach until 2026</u>	7
Resale housing:	<u>Correction has resumed after a brief spring revival</u>	8
New housing:	<u>Housing starts remain resilient but will likely weaken</u>	9
Rental housing:	<u>Rents continue to rise, but at a slowing pace</u>	10
Mortgage trends:	<u>The full impact of higher rates is coming</u>	11

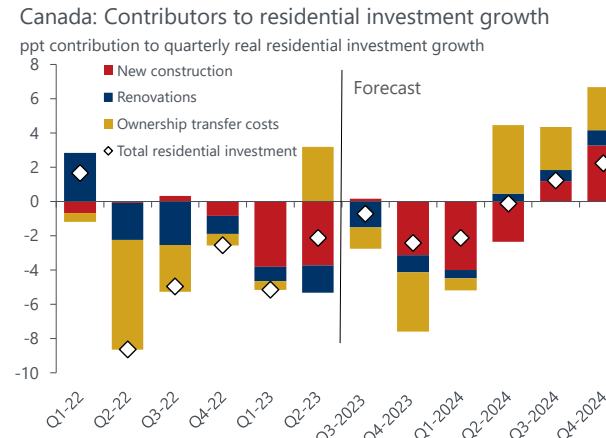
Housing spotlight: Surging newcomers initially boost rental demand

- A migration-led population surge over the past year is straining Canada's chronic low housing supply, especially rentals, as a recession is emerging.
- Canada's population grew a record 1.2mn in a year to reach 40mn people as of July 2023. This growth stems entirely from international migration, around 500k immigrants and 700k non-permanent residents (NPRs).
- According to a 2012 StatCan study – still valid given today's record home buying unaffordability - only 8% of immigrants buy a home upon arrival in Canada, so 92% initially rent or have other living arrangements. The 2021 census reported that 42% of immigrants living in Canada for less than 5 years rent. After 5 years the share drops to 18%. Furthermore, 79% of NPRs are renters, as opposed to just 21% who own a house.
- A vast majority of newcomers initially rent, so are likely driving up rental costs due to tight supply. Few new migrants pursue home ownership upon arrival, so this won't prevent prices from correcting another 5%-10% by mid-2024 as we forecast. Over time, however, a larger population will put upward pressure on home prices and rents if supply is not sufficiently expanded.
- Total population as of July 2023 was 700k higher than StatCan's projection from August 2022. This will require around 250k additional housing units, roughly the current annual pace of home building. By 2030, a 2mn higher population will require about 750k new units.

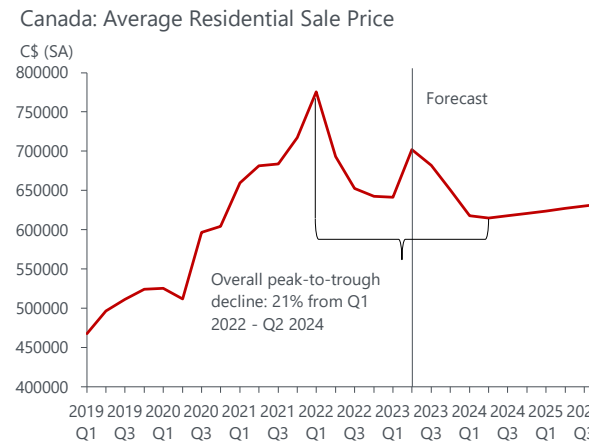


Housing outlook: Residential downturn to continue into 2024

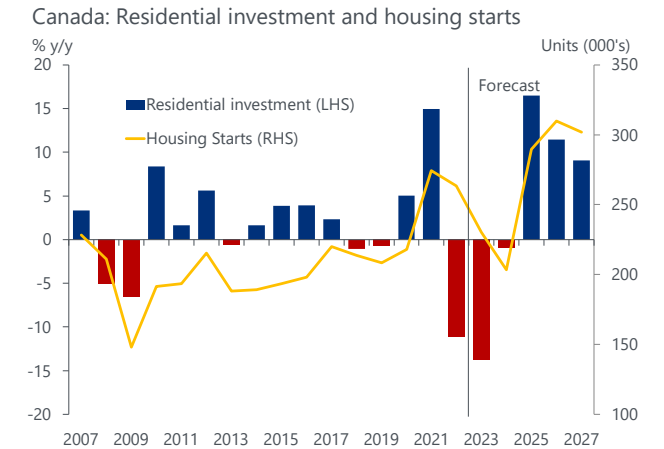
- As of Q2 2023, residential investment had contracted for five consecutive quarters. We expect the downturn will continue until mid-2024 and result in an overall 25% decline from the peak in Q1 2022.
- A second leg down for Canada's resale housing correction is well underway after a brief spring revival. September existing home sales fell for the third straight month – down 6.2% since June – while average prices fell for the fourth month – down 5.3% from May.
- Higher mortgage rates and record unaffordability amid an emerging recession will weaken demand and trigger distressed sales. This will cause a further 5%-10% fall in home prices by mid-2024 and an overall 21% peak-to-trough drop from the February 2022 high.
- Housing starts have been resilient but are forecast to fall from a total of 230,000 units in 2023 to below 200,000 units (SAAR) in early 2024, as the recession deepens, and higher financing costs hit buyers and builders.
- New home building should pick up in late 2024 and ultimately reach a record-high 310,000 starts in 2026, as the economy recovers, mortgage rates ease, and government measures encourage supply.
- The average five-year conventional mortgage rate is forecast to reach a cycle high of 6.25% in Q4 2023 and only slowly ease to 5.25% by 2027.



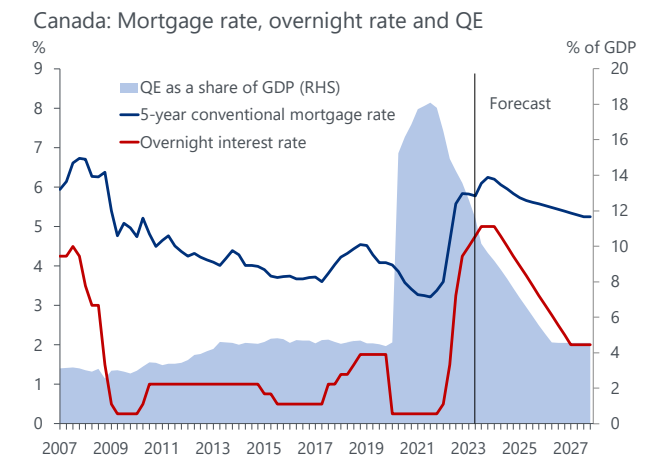
Source: Oxford Economics/Haver Analytics



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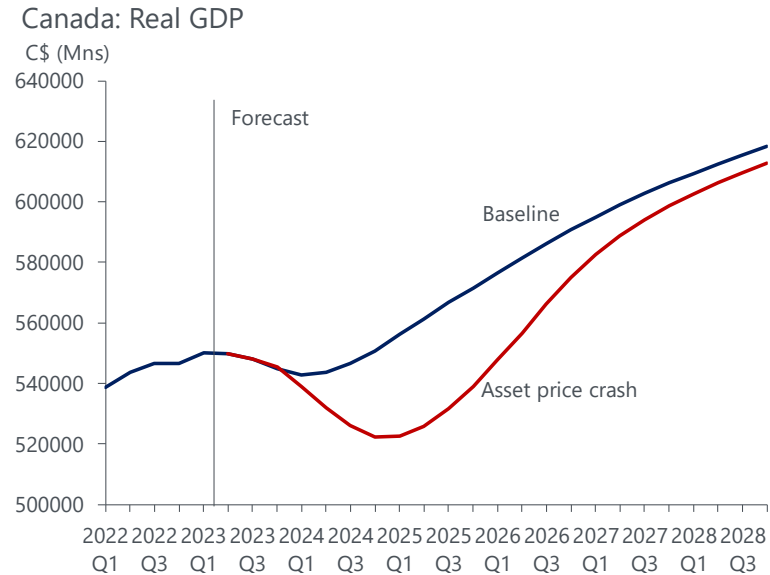


Source: Oxford Economics/Haver Analytics

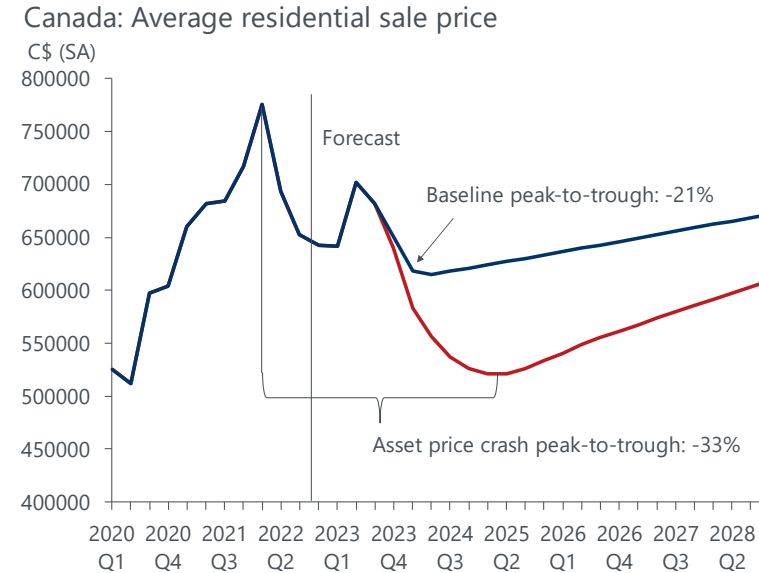


Source: Oxford Economics/Haver Analytics

Housing scenario: Global asset price crash is a major downside risk



Source: Oxford Economics/Haver Analytics



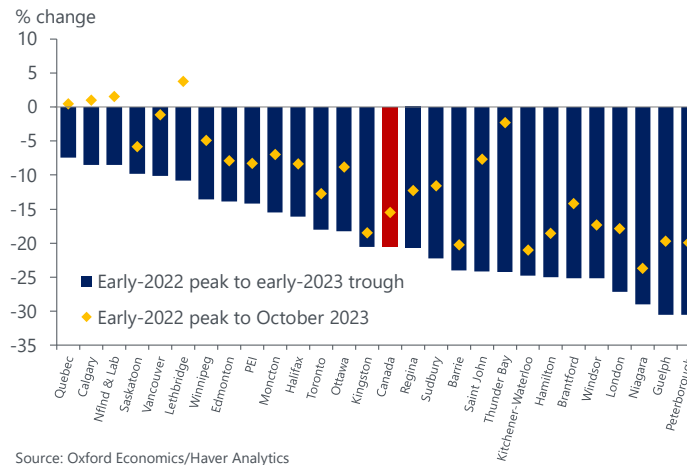
Source: Oxford Economics/Haver Analytics

- Our baseline forecast (40% probability) is for Canada GDP growth of 0.8% this year and a 0.4% contraction in 2024. We anticipate that the resumption of the housing correction this summer will lead overall house prices to decline 21% from Q1 2022 to Q2 2024.
- In our global asset price crash scenario (10% probability), core inflation slows less sharply in the near term than expected, prompting further, aggressive central bank policy tightening. The Bank of Canada (BoC) hikes rates to 6.25%, 125bps higher than the 5.0% peak in our baseline forecast.
- Renewed global banking strains result, with concerns spreading to larger banks, as higher interest rates weigh heavily on financial and housing markets. Sharply lower equity prices hit business and consumer demand. House price falls exacerbate the impact and residential investment weakens. Credit conditions tighten substantially.
 - Canada's GDP plunges 3.4% in 2024, a full 3ppts below our baseline forecast.
 - House prices in Canada experience a much deeper and prolonged peak-to-trough decline of 33% from Q1 2022 to Q1 2025.

Metro update: Affordable metros are seeing price increases

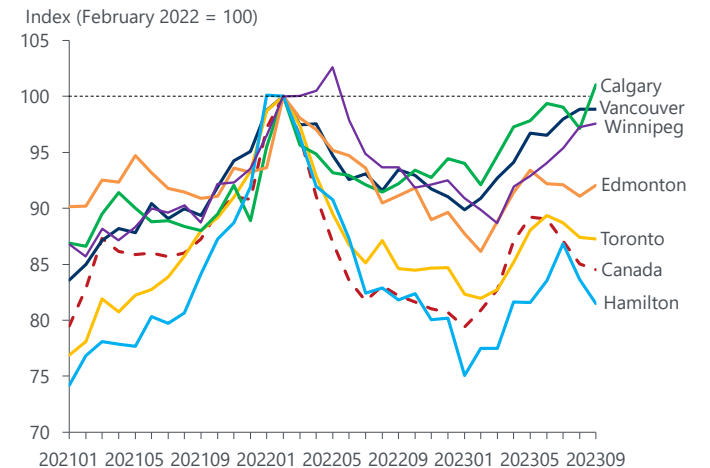
- Average resale house prices remain below early 2022 peaks in most metros, notably those in southern Ontario that saw a sharp run-up as people fled Toronto during the pandemic.
 - Toronto house prices as of September 2023 were 12.7% below their February 2022 peak, despite the spring upswing. We forecast Toronto prices will decline another 13% from 2023 Q3 to 2024 Q2.
 - Other metros that saw a pandemic surge in prices are even further below their 2022 peak: Niagara (-23.7%), Kitchener-Waterloo (-21.0%), and Barrie (-20.3%).
- Metros with more affordable housing entering the pandemic largely avoided a bubble. As of September 2023, Quebec, Newfoundland, and some Alberta metros now have prices above early 2022 peaks.
 - Strong labour markets, affordable housing, and government efforts have encouraged interprovincial migration to Alberta. Consequently, house prices are up 1.0% in Calgary since early 2022.
 - Nonetheless, we expect house prices in Calgary will peak in Q3 2023, before declining 7% by 2024 Q2.

Canada: House price change from early-2022 peak*



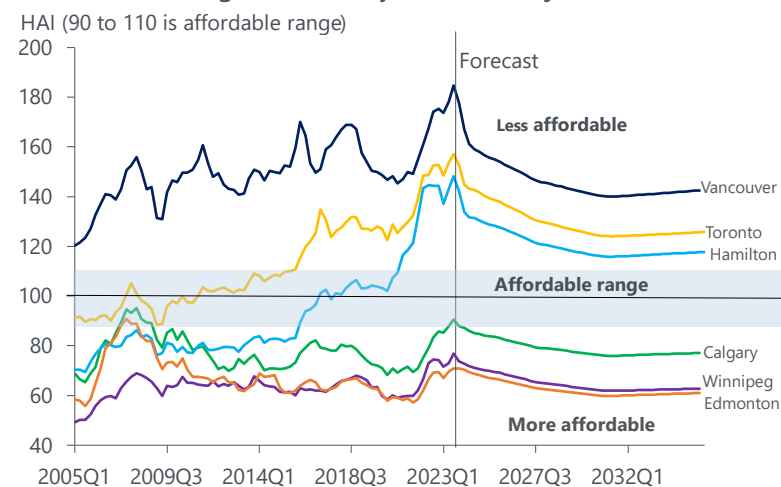
Source: Oxford Economics/Haver Analytics
 *CREA average house price. Montreal and Quebec City are CREA benchmark house prices due to lack of data availability. Peak and trough period varies by metro.

Canada: Average house prices in major metros



Source: Oxford Economics/Haver Analytics

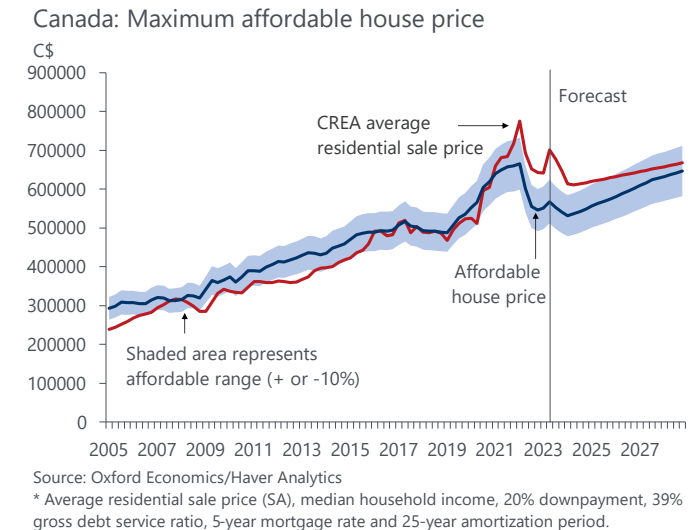
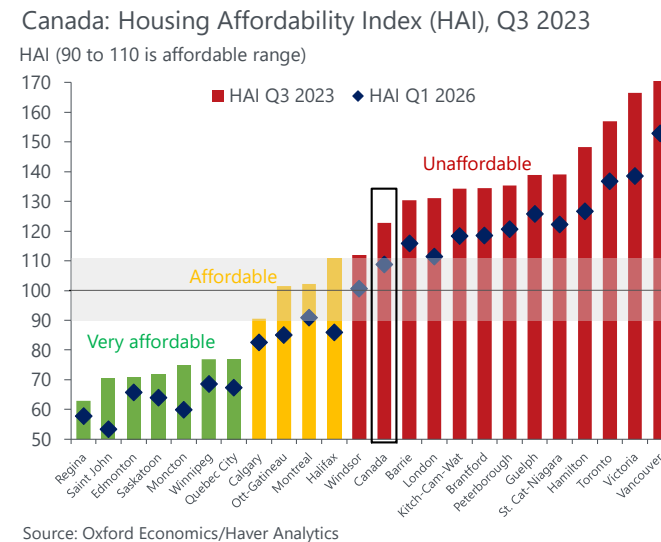
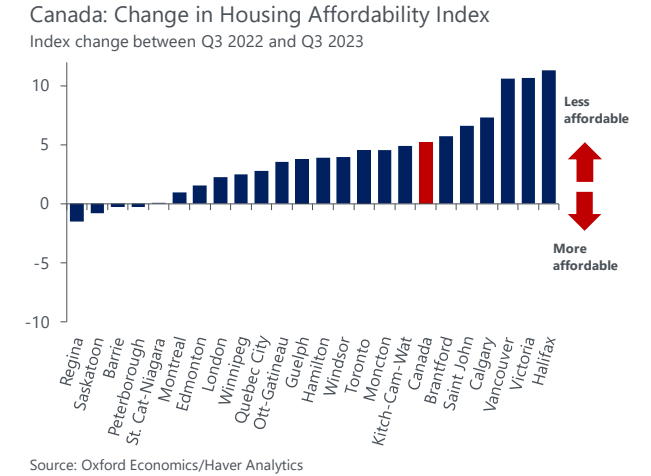
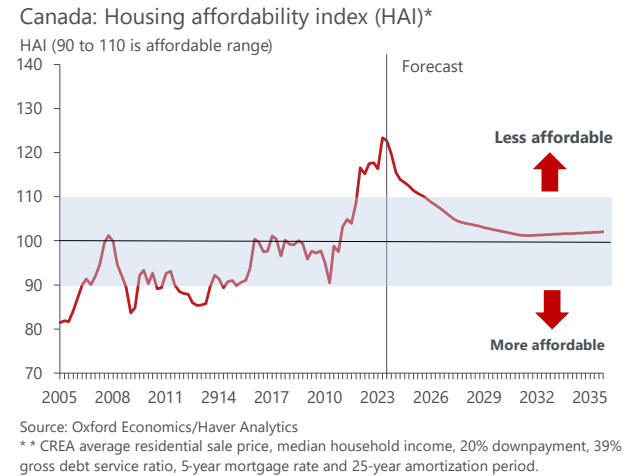
Canada: Housing affordability index in major metros (HAI)*



Source: Oxford Economics/Haver Analytics
 ** CREA average residential sale price, median household income, 20% downpayment, 39% gross debt service ratio, 5-year mortgage rate and 25-year amortization period.

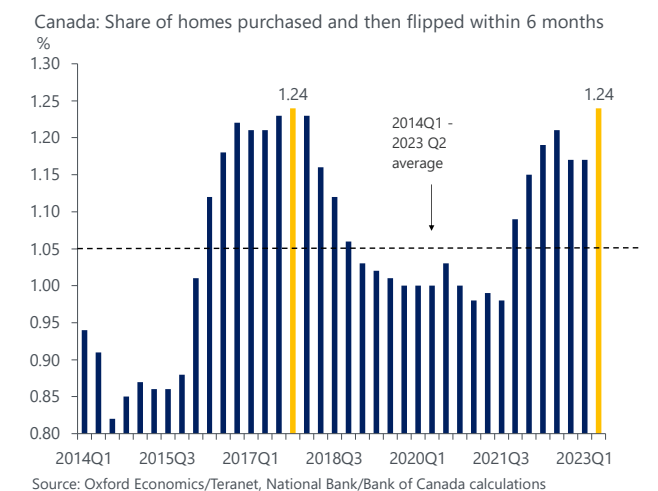
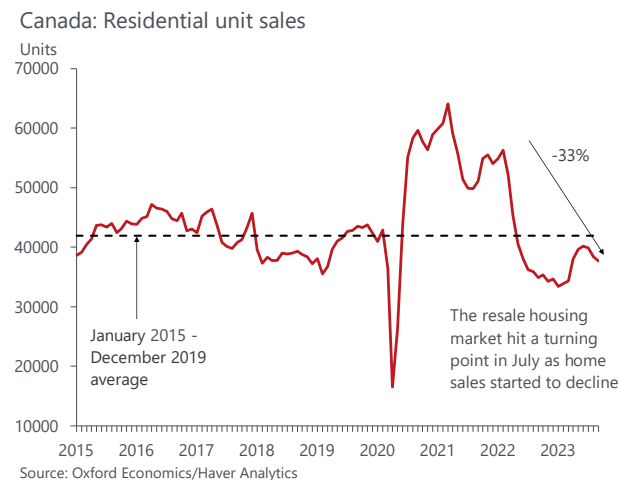
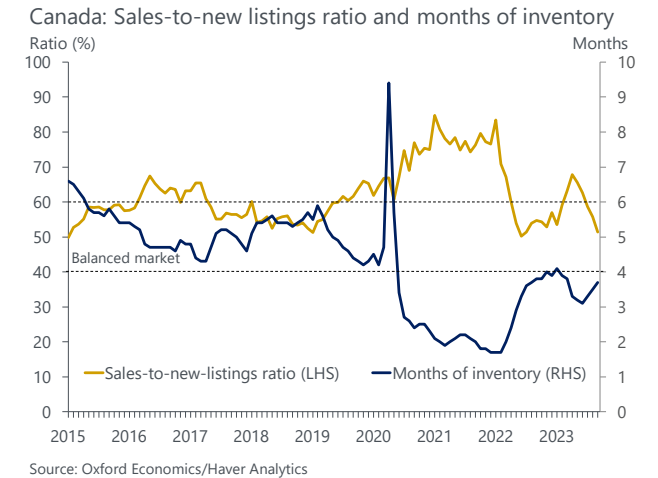
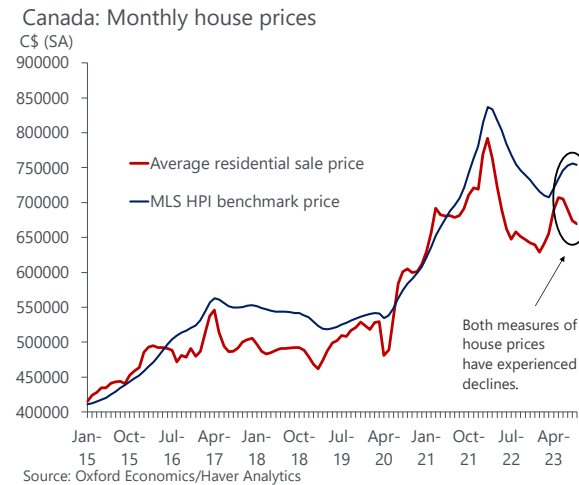
Housing affordability: Housing will remain out of reach until 2026

- Using the Canadian Real Estate Association's (CREA) average residential sale price, we now anticipate home buying will return to an affordable range (below 110) in 2026 compared to 2027 previously.
 - This largely reflects our recent shift in focus away from CREA's MLS benchmark HPI which averaged around \$90,000 higher than the average resale house price in 2022.
- Using average resale prices, Canada's Housing Affordability Index (HAI) came in at 122.7 in Q3 2023. This means the typical Canadian house was 22% beyond the borrowing capacity of the median-income household.
- Affordability improved from Q2 to Q3 2023 as the house price correction resumed and offset an uptick in mortgage rates.
- A gradual return to nationwide housing affordability by 2026 will reflect further declines in house prices, along with a slow easing of mortgage rates and resumption of income growth as the economy recovers following the recession.
- Nevertheless, while affordability will improve in the Greater Toronto and Greater Vancouver Areas, the average resale house will remain out of reach for local median-income households.



Resale housing: Correction has resumed after a brief spring revival

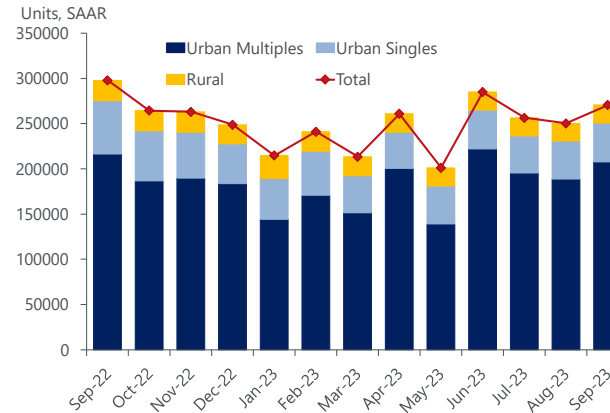
- Canada's resale housing market turned south again this summer after a fleeting spring upswing.
- The seasonally adjusted average home price edged down 0.6% m/m in September. It has now fallen 5.3% over the past four months, retracing much of the 12.3% rebound from February 2023 to May 2023.
- In September, existing home sales fell for the third straight month – down 6.2% since June.
- The retrenchment in home sales is occurring just as higher interest rates and reduced demand prompt distressed homeowners to list. This has eased supply-demand conditions. The sales-to-new listings ratio fell to 51.4 in September, below its January 2015 to December 2019 average of 58.5.
- We expect the onset of the recession, higher interest rates, and record unaffordability will lead house prices to decline another 5%-10% by the middle of next year.
- The share of homes purchased and then flipped within 6 months rose to 1.24% in Q2 2023 – matching its nine-year high. We think government policies to curb speculation and tax unused housing will help reverse this trend.



New housing: Housing starts remain resilient but will likely weaken

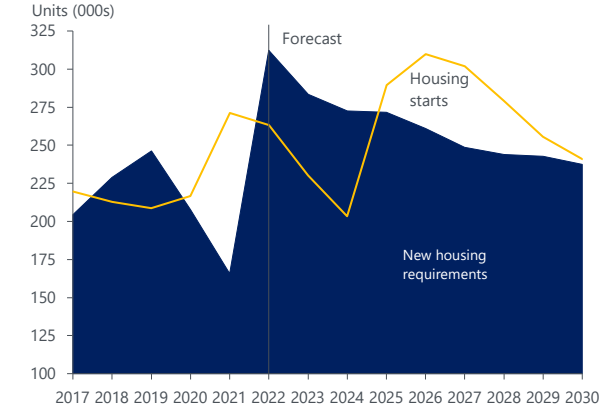
- Housing starts have been more resilient than we expected in the face of rising lending rates. This may partly reflect buyers turning to new housing as the supply of existing homes for sale was limited until the recent uptick in new listings.
- Canada housing starts rebounded 8% m/m to 270,466 units in September on a seasonally adjusted annualized basis (SAAR), after two monthly declines. The September rebound reflected a 10% rise in multiple-unit urban starts and a 3% increase in single-detached urban starts.
- We expect housing starts will weaken to below 200,000 units (SAAR) early next year, as Canada's emerging recession deepens, and higher mortgage rates raise financing costs for both new home buyers and builders.
- However, we forecast housing starts will begin to pick up in the latter half of 2024 and catch up with underlying housing requirements over the medium term as the economy recovers and government measures, such as the recently announced GST break for new purpose-built rentals, encourages more supply.
- The new house price index (NHPI, including land) fell 0.2% m/m in September and is now down more than 1% from its August 2022 peak.

Canada: Housing starts by type and geography



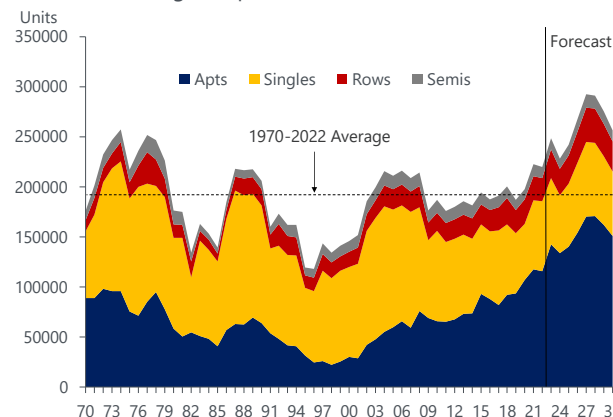
Source: Oxford Economics/Haver Analytics

Canada: New housing requirements and housing starts



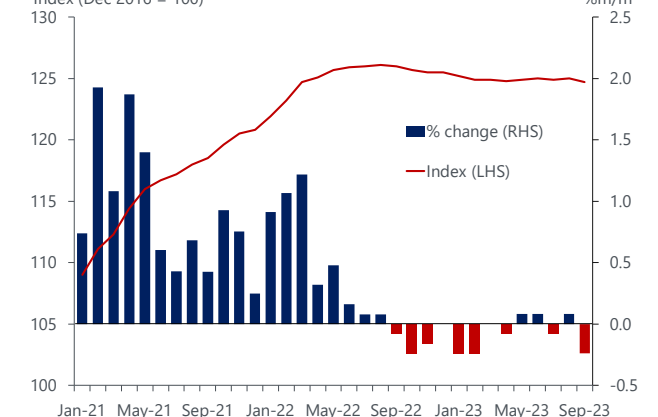
Source: Oxford Economics/Haver Analytics

Canada: Housing Completions



Source: Oxford Economics/Haver Analytics

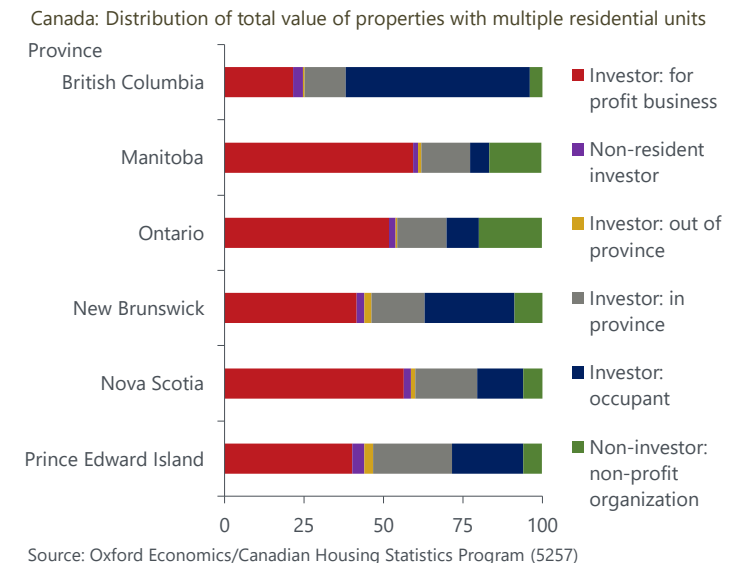
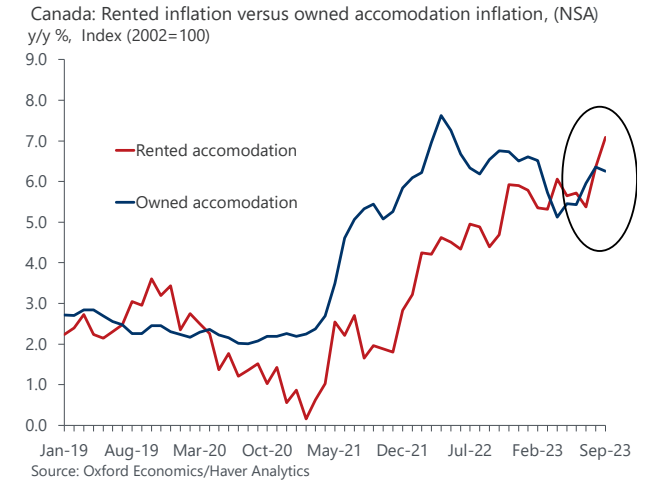
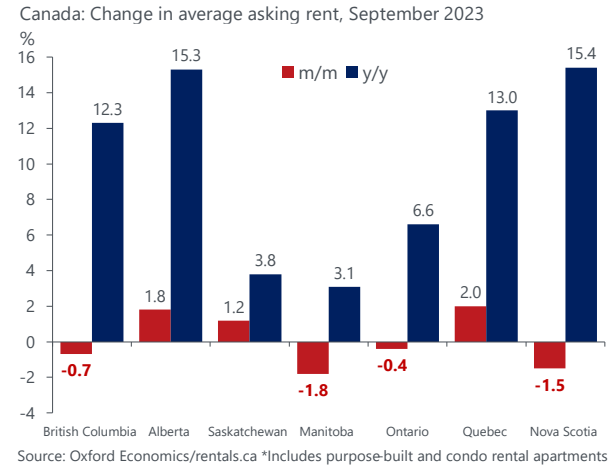
Canada: New house price index



Source: Oxford Economics/Haver Analytics

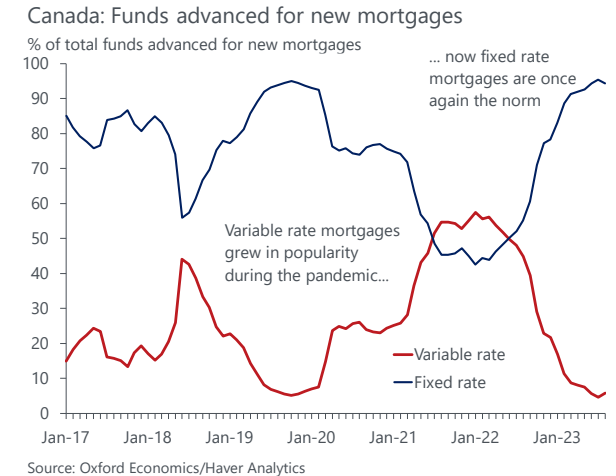
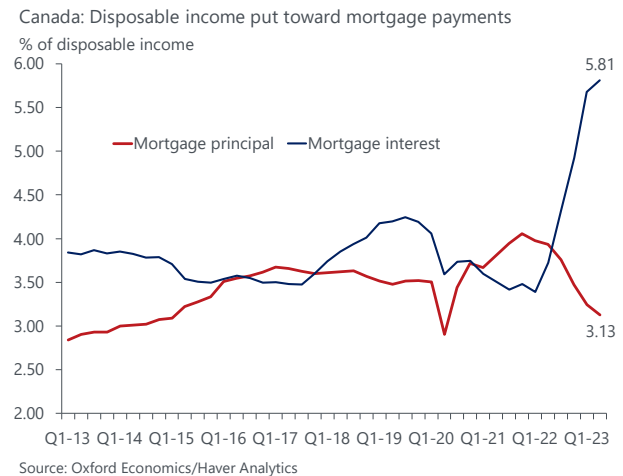
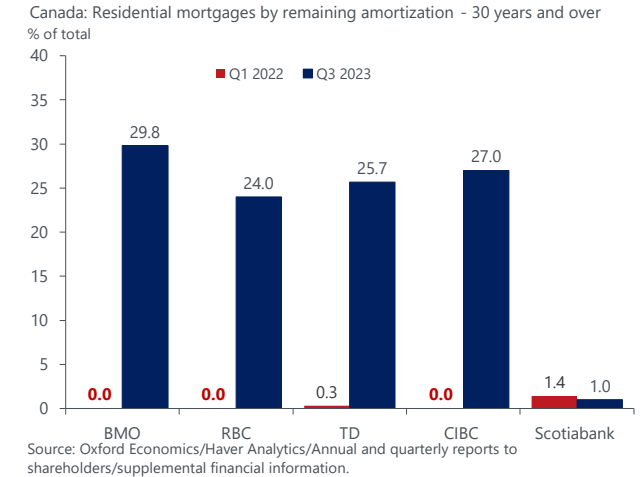
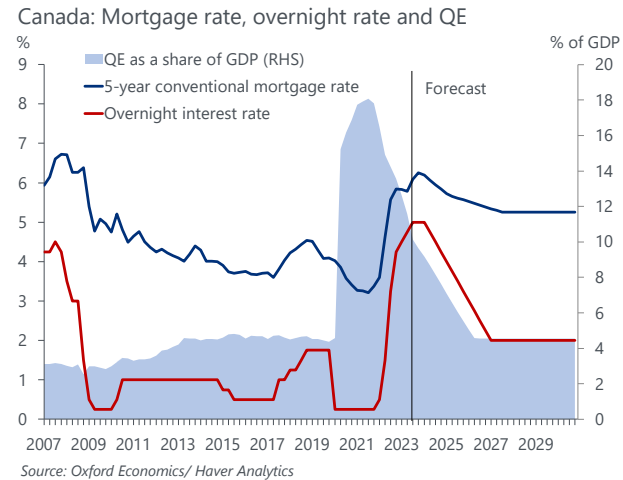
Rental housing: Rents continue to rise, but at a slowing pace

- Rents continued to soar in September as Canada's still-elevated house prices, higher interest rates, and record international migration pushed more households toward rental options.
- According to rentals.ca, average monthly rent across Canada climbed 11.1% y/y in September to \$2,149.
- Second to mortgage interest cost, rent was the main upward contributor to the 3.8% year-over-year change in the CPI in September. Rented accommodation increased 7.1% y/y in September, while owned accommodation grew at a slower pace of 6.3% y/y.
- However, the pace of rent hikes is slowing.
 - In Toronto, total rent growth decelerated to its slowest annual rate of increase in two years, falling from 8.7% y/y in August to 2.3% in September.
 - Total rent growth slowed to 2.3% y/y in September from 8.3% in August in Winnipeg.
 - The most recent data for Victoria suggests rents declined 1.6% y/y in August.
- The total value of properties with multiple residential units – often used as rentals – held by for-profit businesses was 59.4% in Manitoba, 56.4% in Nova Scotia, and 51.8% in Ontario.



Mortgage trends: The full impact of higher rates is coming

- The Bank of Canada held the policy rate at 5% in October, citing "growing evidence that past interest rate increases are dampening economic activity and relieving price pressures". We expect the policy rate will be unchanged at 5% through mid-2024, before being slowly lowered to a 2% neutral level in 2027.
- The average five-year conventional mortgage rate hit 5.8% in Q2, and we anticipate it will reach a cycle high of 6.25% in Q4 2023.
- Canada's major chartered banks have responded to rising interest rates and risk of delinquencies by issuing longer mortgage amortization periods.
 - Except for Scotiabank, the share of residential mortgages with over 30 years of remaining amortization has surged from just 0.3% in Q1 2022 to the 24%-30% range in Q3 2023.
- Extended mortgage amortizations have delayed the impact of higher interest rates on debt service costs, but the eventual hit is coming.
- Nevertheless, mortgage interest payments rose to 5.8% as a share of household disposable income in Q2 2023. Although below its peak of 7.3% in 1991 Q2, this is the highest since 1996 and well above its 3.8% average from 2013 to 2019.



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