

The Housing Paradigm

Within my demographic, I am constantly reminded through apps such as Viewpoint.ca that for most, home affordability is more of an aspiration, rather than a certainty. A recent poll sourced by Ipsos, a survey-based research company, found that a large majority of Canadians do not believe home ownership is tangible, despite some relief in the housing markets and government tools aimed at improving affordability. **Data suggests that 63% of Canadians who do not own a home at present have given up on the possibility of ever acquiring one** (Lord, 2023).

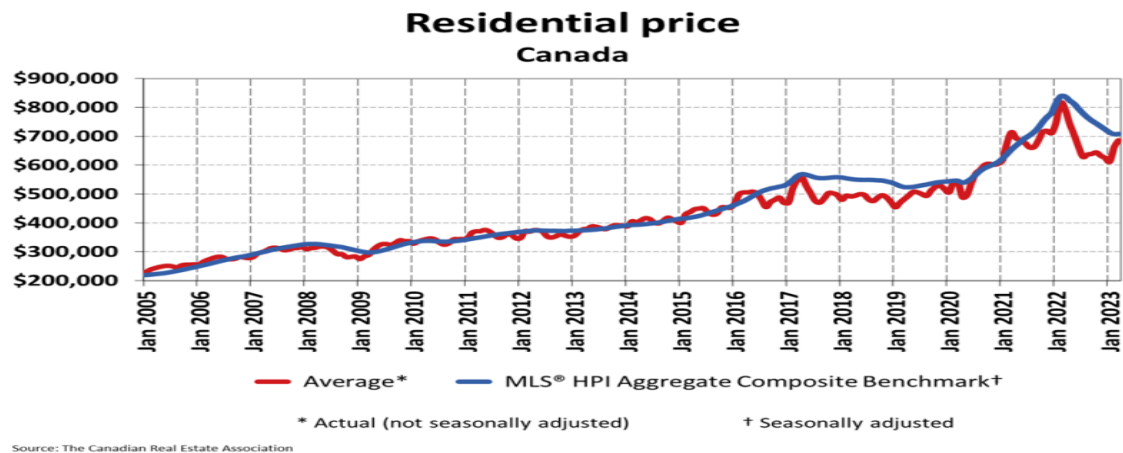
As we continue to follow the same theme of retrenched inflation, the Canadian housing market has played a large part in the price easing narrative. Real estate, in general, was one of the first sectors to feel the influence of the Bank of Canada's rapid rate hike campaign beginning just over a year ago. Additionally, given the nature of our shorter duration mortgages compared to our counterparts south of the border and the sheer weight of variable mortgages, our markets are more susceptible to interest rate cycles (Thanthong-Knight, 2023).

Finally, the attention in the marketplace has reduced somewhat as the impacts of these immediate hikes filter through our indebted economy and restrict businesses and consumers. Sounds counterintuitive, but our investment team will continue to assert that resolution in capital markets is attainable. The debate about housing markets is a very important part of this environment for all demographics. Folks looking to downsize are worried that they will not get the run-up prices that we saw during the pandemic. On the other hand, I am constantly debating with my peers when it's a good time to buy a home. When mortgage rates fall commensurate with inevitable Bank of Canada rate cuts where will housing prices be at?

It is no surprise that the accommodative rates following COVID to keep the markets afloat caused a real runup in home prices. I recall friends and colleagues putting their homes on the market and getting at least 25%+ above asking at one point. The theme generated a frenzy of buyers as debt servicing was affordable. This led to sellers that had aspirations to downsize, or relocate, harvesting substantial gains tax free on their principal residences. The Canadian Real Estate Association tallied the average house price nationwide at approximately \$620,000 in 2021 (slight initial skew due to larger metropolitans). Over the course of just one year, national averages on housing prices were just shy of \$750,000 by January 2022, equating to a 21% increase year over year (Deschamps, 2022). Recently, Canada's average home price is hovering around \$686,000, about 14% below a year ago (WOWA, 2023).

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The chart below illustrates the clear buildup in prices prior to the rate hike cycle (CREA, 2023).

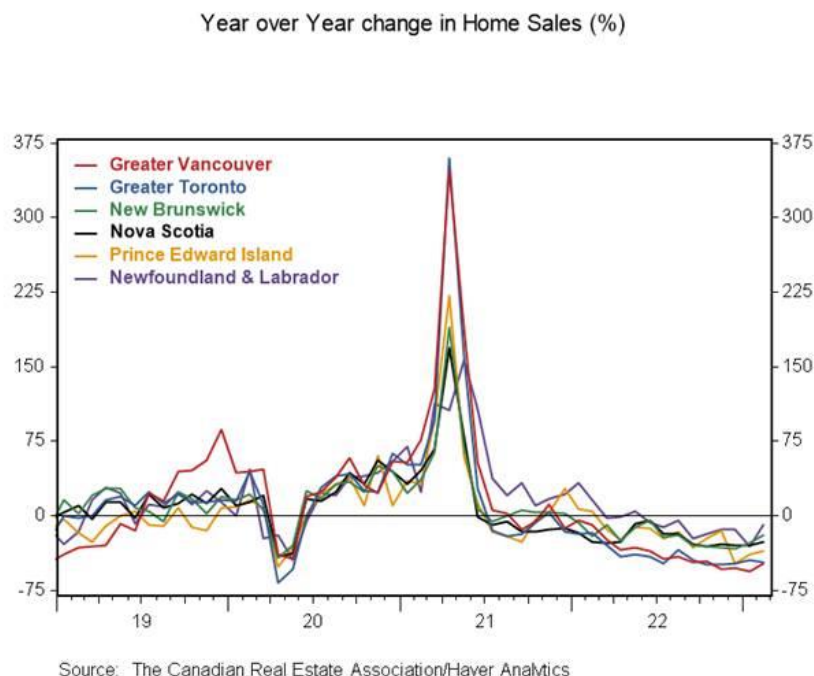


The impacts of engineering a low rate environment induced an influx of home buyers. The illustrations below highlight year over year percentage sales in both Atlantic Canada and other major Canadian markets when interest rates were held at low levels. An increase in demand and home sales had a resulting impact on prices throughout the past few years.

	Existing Home Sales (y/y%)									
	Greater Vancouver	Greater Toronto	Quebec	Calgary	Halifax-Dartmouth	Moncton	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland & Labrador
LSOURCE	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association	The Canadian Real Estate Association
Mar-20	46.8%	11.5%	10.1%	-11.2%	23.2%	16.5%	6.0%	19.9%	8.0%	-23.0%
Apr-20	-39.5%	-67.1%	-63.0%	-59.6%	-42.2%	-45.4%	-42.2%	-41.8%	-51.9%	-19.6%
May-20	-43.6%	-53.9%	-30.0%	-40.6%	-43.9%	-37.6%	-30.1%	-37.8%	-32.1%	-44.7%
Jun-20	19.0%	-1.8%	33.7%	2.4%	14.3%	18.4%	24.6%	16.5%	0.5%	-5.6%
Jul-20	23.9%	28.9%	48.5%	17.3%	15.3%	19.3%	16.8%	14.7%	23.2%	22.6%
Aug-20	38.4%	39.7%	46.6%	9.5%	30.7%	45.9%	31.7%	24.3%	30.3%	20.9%
Sep-20	58.3%	41.6%	50.4%	32.5%	47.7%	37.8%	34.5%	42.9%	38.7%	38.8%
Oct-20	30.9%	24.4%	38.4%	28.8%	40.2%	22.9%	24.1%	31.9%	10.2%	40.2%
Nov-20	23.0%	23.6%	37.3%	33.9%	36.6%	61.3%	49.5%	55.8%	60.8%	42.7%
Dec-20	54.3%	63.2%	37.2%	47.5%	52.5%	33.2%	44.3%	44.7%	10.1%	54.4%
Jan-21	53.2%	51.2%	21.7%	45.4%	15.2%	40.3%	22.3%	31.5%	34.9%	69.1%
Feb-21	76.3%	51.2%	5.0%	61.1%	29.2%	31.7%	36.3%	45.0%	31.3%	23.3%
Mar-21	128.1%	95.3%	15.1%	150.5%	34.1%	65.4%	64.3%	67.4%	97.2%	113.1%
Apr-21	347.7%	359.3%	205.2%	443.1%	147.9%	223.1%	189.2%	168.4%	221.8%	106.3%

(CREA, 2023)

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So, What is Next?

Canada's housing markets have generally been in correction mode over the past year as activity and prices have been under sustained downward pressure. Real estate analysts in the residential space confirmed the resulting price correction was a consensus assumption as we wrap up the most recent interest rate cycle. Higher rates are filtering through to the consumer and putting their affordability plans under scrutiny. Budgeting for what is likely one's largest asset is constrained as our central banks have taken combative measures to rein in inflation. The sentiment is however, starting to part, as this corrective rhetoric was and still is conditional on the Bank of Canada losing momentum on rate hikes in which institutional lenders closely follow. The past two Bank of Canada meetings have been welcomed as we have paused our overnight rate to 4.5%. Interest rates are unlikely to become accommodative until 2024, impacting how much Canadians can borrow. As of recent, housing prices have ticked up slightly in select regions.

Spring is typically a time of year for climbing home sales. When this is coupled with new supply at a 20 year low (CREA, 2023), a supply demand dynamic is created that could cause a recovery in prices. If mortgage rates are more stable, then the housing market in Canada will have a stronger foundation. Instability keeps both sellers and buyers on the sidelines trying to time the housing market. Similar to investing, this rarely ends favourably. Additionally, our population growth has consistently increased. In 2022, we added 1,050,000 to our population, which represents a 2.7% growth year over year and the highest growth rate since the late 1950's. With international immigration making up a vast majority of the increase, Canada has become the leader amongst G7 countries for growth per capita (Statistics Canada, 2023). Thus, demand for housing will continue. As highlighted in our recent central bank Monetary Policy Report, **"Growth in residential investment is anticipated to resume in the second half of**

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2023. Strong demand from immigration should support housing activity over the projected horizon” (Stober, 2023). If supply continues to remain at current levels, prices could see volatility on the upside. In Nova Scotia, there was a total of 4877 housing starts in 2022 (dwellings include single homes, semi-detached homes, townhouses, and apartments) (CMHC, 2023). Furthermore, Nova Scotia’s population grew by 35,341 (3.53%) in 2022, increasing the total population to 1,037,782 (Government of Nova Scotia, 2023). It is not an apples to apples relationship when comparing housing starts to population growth. However, a persisting differential will not create a buyers market anytime soon.

Canada Real Estate Association has most recently pooled March 2023 data for home prices. Similar to Ontario, Atlantic Canada is starting to see an uptick in prices. Most notably, Nova Scotia’s average home price is ~\$405,000 (.5% increase from last month and 10.5% decrease from last year) and PEI’s is at ~\$402,000 (6.5% increase from last month and down 3% from last year) (WOWA, 2023). Too many of us are staying on the sidelines waiting for rates to retreat. The equity you can compound in a home purchase will vastly outweigh current interest payments. Most housing experts and mortgage brokers will astutely point out that you are not in a long-term relationship with your interest rate (especially in Canada!) and home prices do not seem to be trending downward at the level we were seeing. **Like investing in the stock market, staying on the sidelines will erode your returns. In the Canadian housing market, staying on the sidelines will eventually result in affordability being a pipe dream.**

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- 1) <https://globalnews.ca/news/9601779/canada-housing-affordability-2023-given-up/>
- 2) <https://financialpost.com/news/economy/canada-cooling-housing-market-slow-inflation>
- 3) <https://globalnews.ca/news/8620883/canada-home-prices-january-crea/Ho>
- 4) <https://wowa.ca/reports/canada-housing-market>
- 5) <https://creastats.crea.ca/en-CA/>
- 6) <https://www150.statcan.gc.ca/n1/daily-quotidien/230322/dq230322f-eng.htm>
- 7) <https://globalnews.ca/news/9618932/canada-real-estate-prices-forecast-2023/>
- 8) [https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/12/2/Nova Scotia](https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/12/2/Nova%20Scotia)
- 9) <https://www.novascotia.ca/finance/statistics/news.asp?id=18712>

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