move smartly

TORONTO REAL ESTATE NEWS, DATA & INSIGHTS

The Move Smartly Report December 2021

Top Data Trends & Key Stories
in Toronto Area Real Estate Right Now

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Realosophy
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ABOUT THE AUTHOR

John Pasalis is the President of Realosophy, a Toronto real estate brokerage which uses data analysis to advise residential real estate buyers, sellers and investors. John is a frequent commentator on the Toronto housing market and real estate consumer and industry issues. His research has been shared with the IMF and cited by the Bank of Canada and the Canadian Mortgage and Housing Corporation (CMHC).

John holds a B.Sc. in Economics from the University of Toronto, an M.Sc. in Business and Management Research from the University of Reading and is a Doctoral Candidate in Business Administration at the University of Toronto and the University of Reading where he is researching housing markets.

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About Realosophy Realty

About Move Smartly

In this Report

The Market Now

Colder weather has had no effect on Toronto's red hot housing market which continued to show signs of heating up in November.

House sales were down 10% on a year-over-year basis in November, but well above pre-Covid 19 pandemic levels for November in 2018 and 2019.

New listings in November were down 7% over last year while the number of active houses for sale at the end of November fell to just 3,060, a 51% decline over last year.

Why are there so few houses available for sale this year compared to last year?

The number of new listings so far this year is actually up 8% over the same period last year. But when we look at the number of sales, they are up 22%. This dearth of houses for sale is due to a surge in demand which has outpaced the growth in new listings.

The average price for a house in November was $1,477,133, up 31% over last year; the median house price in November was $1,300,000, up 35% over last year.

Condominium (condo) sales were up 33% in November over last year and well above the pre-Covid 19 levels for the same month in 2018 and 2019.

New condo listings were down by 20% in November over last year, but above the volumes in 2018 and 2019. The number of condos available for sale at the end of the month, or active listings, was down 60% over last year.

The average price for a condo in November reached $738,695, up 19% over last year; the median price for a condo in November was $665,000, up 17% over last year.

(For all monthly statistics for the Toronto Area, including house, condo and regional breakdowns, see the final section of this report.)

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Key Issue

Is Canada in a Housing Bubble This Time?

With home prices continuing to surge across the country many are starting to wonder if the rational explanation we've been hearing for Canada's housing boom — an urban exodus and surge of end-users buying homes due to the Covid-19 pandemic —- no longer applies.

In last month's report, I discussed how the housing market on the ground in the Toronto area appears to have turned; while much of the demand in 2020 was driven by end users rushing into the market post-Covid lockdowns, 2021 has seen a surge in demand from investors looking to capitalize on rapidly rising home prices.

My observations turned out to be prescient as later that same month the Bank of Canada's Deputy Governor Paul Beaudry highlighted many of the same risks in his speech titled, "Financial stability through the pandemic and beyond."

Here are a few notable comments:

A particularly worrisome development is that price expectations in some areas may have become extrapolative. This happens when people think house prices will be even higher in the future, and it can lead them to rush into the market to buy.

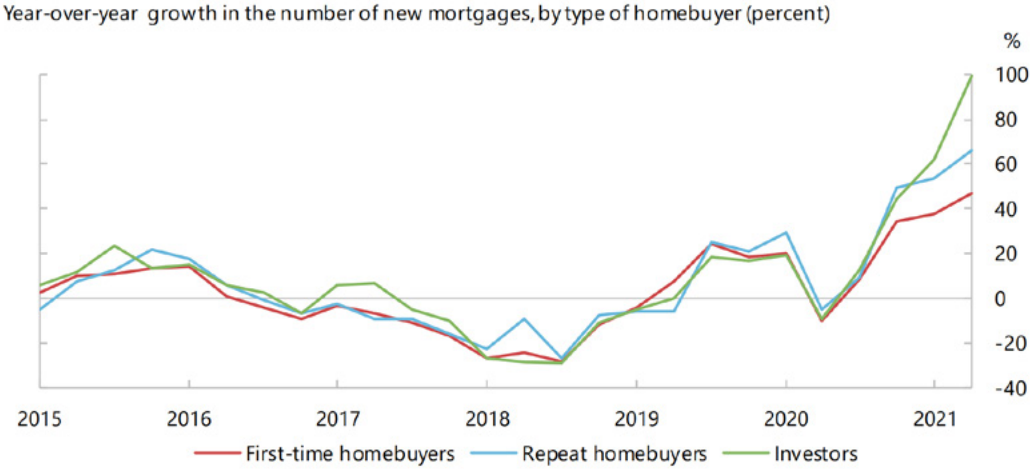
At the same time, our analysis finds that many Canadians are buying homes as investment properties—that is, in addition to their principal residence—and the importance of this phenomenon has grown. Expectations of a capital gain can make homes a very attractive asset for investors.

A sudden influx of investors in the housing market likely contributed to the rapid price increases we saw earlier this year. In such a case, expectations of future price increases can become self-fulfilling, at least for a while. That can expose the market to a higher chance of a correction. And, if one occurs, the damage can spread far beyond the investors. That's because, for many households, their wealth and access to low-cost credit are tied to the value of their home.

The Bank of Canada's research found that home purchases by investors outpaced demand from first-time and repeat home buyers.

Chart 4: Home purchases by investors increased more during the pandemic than those by other homebuyers

Year-over-year growth in the number of new mortgages, by type of homebuyer (percent)



Sources: TransUnion, regulatory filings of Canadian banks and Bank of Canada calculations

Last observation: 2021Q2

While Beaudry didn't refer to Canada's housing market as a bubble, central bankers rarely do, his description of Canada's housing market was pretty much the definition of a bubble.

A surge in demand driven by the extrapolative expectations of investors echoes Joseph Stiglitz's definition of a bubble:

> *[i]f the reason that the price is high today is only because investors believe that the selling price will be high tomorrow—when "fundamental" factors do not seem to justify such a price—then a bubble exists ...*

In the case of a housing bubble more specifically (as compared to other asset bubbles), a disproportionate increase in demand from investors vs end user home buyers is a defining characteristic, according to Robert Shiller and Karl Case:

> *That is what a bubble is all about: buying for the future price increases rather than simply for the pleasure of occupying the home. And it is this motive that is thought to lend instability to bubbles, a tendency to crash when the investment motive weakens.*

But not everyone agrees with these risks.

While the Bank of Canada is indirectly cautioning us about an investor-driven housing bubble in Canada, former CEO of CMHC Evan Siddall had this to say about a potential housing bubble in Canada:

"I don't think we're in a bubble, I really don't think we're in a bubble. If demand is going up and supply is not, prices will go up, that's not a bubble."

This argument, that lack of supply is the real problem, is a common one put forward by home builders and real estate agents.

The problem with this argument is that every single housing bubble in history has seen demand outpace supply. This is in fact a characteristic of a housing bubble and it doesn't matter if the particular city has an elastic (easy to increase) or inelastic (hard to increase) supply of housing. If demand was not outpacing supply, prices would not rise rapidly — and without rapid price acceleration, there is no bubble.

But the difference between a housing boom and a bubble (as demand exceeds supply in both cases) is the question of who is driving the demand. When the demand for homes from investors is outpacing demand from end users, this is typically the difference between a bubble and a boom.

So how can the federal government take some heat out of the housing market and mitigate the financial and economic risks associated with a bubble that were highlighted by the Bank of Canada?

Economist David Rosenberg outlined what I see as the correct approach in this recent interview where he noted that *"[h]ousing has become not just a place to live in Canada, it's become like an asset class, and probably too much of an asset class".*

The solution is to tighten credit on investors looking to buy houses.

This would not only take some of the excess demand out of the market and cool the acceleration in home prices for average buyers, but it would also help mitigate the negative side effects of an investor-driven housing bubble.

But once again, not everyone agrees with this view.

In a recent interview, the Superintendent of Canada's banking regulator OSFI, Peter Routledge had this to say about the strong investor demand for housing in Canada:

> *The investors are making an investment to generate a return, that's a free market economy, more power to them.*

What does Routledge think needs to be done to cool an investor driven housing boom?

Build more homes.

This is a rather odd suggestion for a couple of reasons. Firstly, I'm not aware of any investor-driven housing boom that successfully built their way out of a bubble. In fact, a number of cities that experienced investor driven housing booms in the early 2000s that had a relatively elastic supply of homes (e.g., Phoenix, Las Vegas, Dubai, etc.) and were able to sell and build enough houses to accommodate investor demand saw massive price corrections when their bubbles' burst.

But more importantly, this proposed solution is not something the federal government can control and has been talked about as a solution for over a decade with little to no progress. More housing supply is no doubt an important long-term solution to introducing more housing affordability in Canada, but it's not an immediate solution to short-term problems — like a surge in investor demand.

If the only solution we continue to hear from policymakers for an investor-driven housing boom is "build more homes," we expect a bumpy ride for our housing market ahead.

Data Dive

Can Co-Buying a Condo with This Start-Up Pay Off?

A Canadian startup called Key is promising to "fundamentally change the way real estate works for the better."

Their tagline says it all: "Own real estate. Not a mortgage."

Rather than saving up years for a 5% down payment to buy your first home, you can become a "co-owner" in a condo by investing as little as $15,000 or 2.5% of a typical condo unit's value. Under such a structure, you own 2.5% of the condo while a corporate investor owns 97.5% of the condo.

This initial investment forms part of your equity in the condo and as an "owner-resident" of that unit, you would still need to pay rent each month, but $50 of that rent goes towards your equity in the unit.

The idea here is that you're not only building equity in your home, but your initial investment is also appreciating as the value of the condo you're living in appreciates.

But when things sound too good to be true (i.e., "own real estate without a mortgage"), they usually are.

There are quite a few things consumers should be mindful of before considering investing their money with Key.

You're Not Really an Owner with Key

The first and most important is that Key is selling the dream of homeownership with as little as a $15,000 commitment, but Key's "owner-residents" are not actually owners.

There is only one real test for who actually owns a home — who is registered on title.

Key's owner-residents are never registered on title which means they're not really owners. They're just renters who have effectively loaned $15,000 to their landlord.

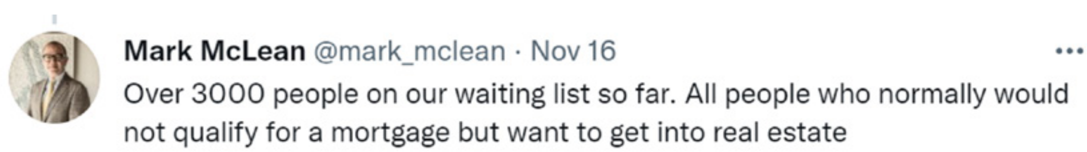
Key's owner-residents may have an option to buy the unit they are living in under certain conditions — but a contractual option to buy a property does not make you a homeowner.

It would be more honest and transparent for Key to market their service as a rent-to-own model rather than a co-ownership model.

So why don't they?

For a number of reasons.

Key's target buyer is, in their VP of Market Development Mark McLean's words, *"people who normally would not qualify for a mortgage but want to get into real estate."*



Owning a home is something many people aspire to, and appealing to those who may be from households that have long rented, it's a pitch that is very emotionally appealing.

It also has the benefit of skipping over many of the questions you might have to answer if you made a rent-to-own investment: Are you sure this is a good investment? Is your money secure? Are you sure the owners aren't taking advantage of you?

The dream of becoming a homeowner can also lead people to overlook doing the proper research and due diligence to make sure they're making a smart investment. The consumers that Key is particularly targeting are less likely to hire a lawyer to review Key's contract before signing it.

I am very concerned that Key's business model appears to be predatory and it's this concern that led me to write a short thread on Twitter about Key.

Key's CEO called me shortly after to reassure me that what they're doing is great and that I have simply misunderstood their business model, and offered to share more information about their company.

I gave it some thought and asked them for just one thing — the contract that owner-residents sign with Key. I wasn't interested in receiving more marketing materials. Contracts don't lie and it would be easy to assess this potential investment from a consumer's perspective by looking at one.

It turned out that this contract is information that Key isn't willing to share with me due to concerns over "intellectual property," even though they are comfortable sharing it with anyone interested in buying into their premise.

This led me to make an offer to my Twitter followers, which I'm extending to readers of this report — if you are considering investing in a condo with Key, but don't have the financial resources to hire a lawyer to review Key's contract, please contact me and I will happily pay for a legal review from a lawyer I trust, provided I can share the details of such a review online so that other consumers can benefit.

I'll wrap up with one final reason why I believe Key is telling people they're homeowners when they are not — when someone believes they're a homeowner, they are more likely to invest their own money to improve and renovate their condo units.

It's worth noting that any improvements are not paid 97.5% by the investor and 2.5% by the owner-resident in line with their proportional share in the property according to my conversation with their CEO as all improvements are paid for entirely by the owner-resident.

When a homeowner spends $10,000 renovating their home, their property rarely appreciates by the same amount. Depending on the type and quality of renovations, the owner might see a 50 to 75% return on their investment, the latter most often for kitchen and bathroom renovations.

This means that if an owner-resident spends $10,000 doing small improvements to the condo they live in, they would be lucky to see the value of their unit appreciate by $5,000.

Continuing with our example above, the owner-resident may be reimbursed $5,000 for renovations that are deemed to have increased the value of the property, but the extra $5,000 in renovation expenses that did not add to the value of the property are paid for by the owner-resident.

So, while Key promises that owner-residents will get the full value of the appreciation from the upgrades they made, this once again is a misleading promise.

The main beneficiary of these improvements is the investor who owns the unit and is getting it renovated at a fraction of what it would cost, not the owner-resident paying for the renovations.

Key's primary clients, the investors that retain ownership of these units, are large institutional investors — big companies that are raising millions of dollars to buy blocks of condos from builders. Central Condominium REIT is one such company (and a Key client) that owns 60 condo units in two downtown condo buildings.

And this leads to an even bigger problem when we think about Key's big institutional investor-clients.

Given how unaffordable Toronto's housing market is, do we want big companies buying up single family condos and homes? While first-time buyers have to save their down payment through their earnings and have to qualify for a mortgage based on their income, Key's clients can easily raise millions of dollars from wealthy investors and use their buying power to outcompete any first-time buyers.

Key and their backers seem to believe this is "changing the way real estate works for the better", but I strongly disagree.

To me, changing real estate for the better would mean ensuring that more homes are bought by Torontonians who intend to live in those homes, not by big corporate investors who are using homes as just another financial asset.

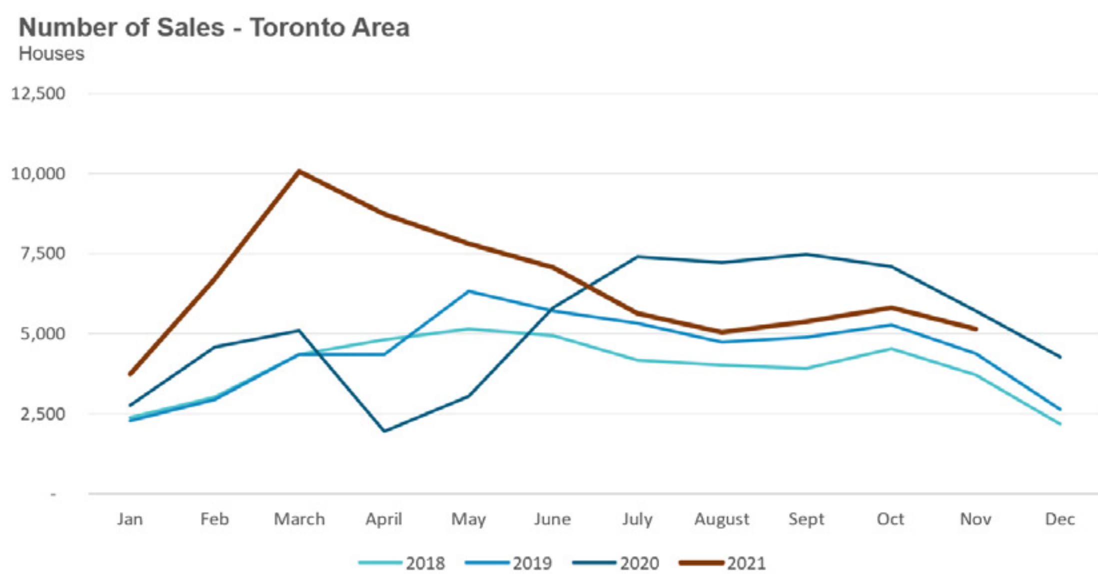
Monthly Statistics

House Statistics

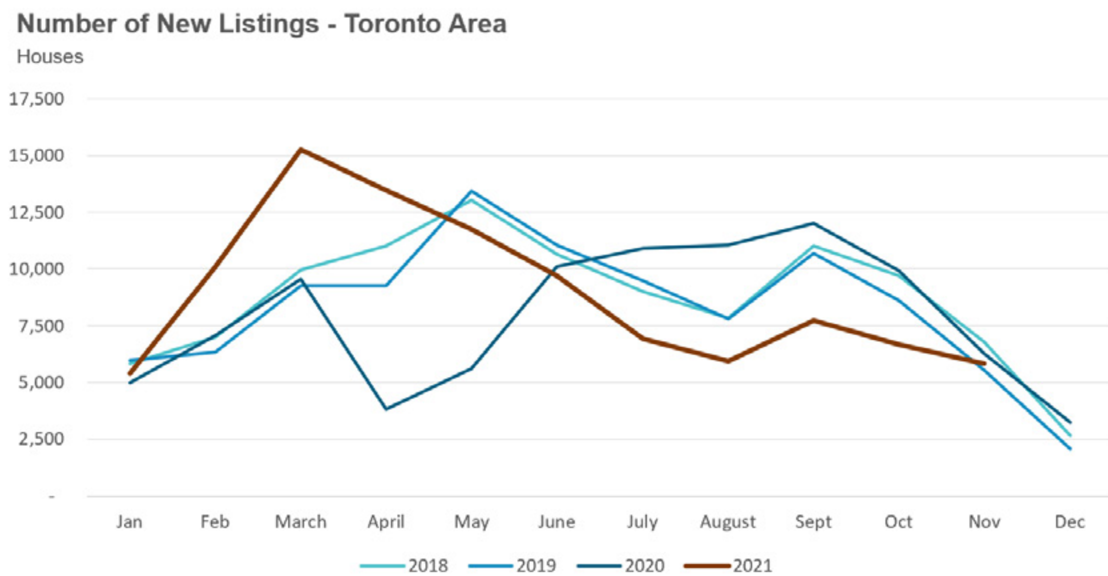
House sales (detached, semi-detached, townhouse, etc.) in the Toronto area in November 2021 were down 10% over the same month last year.

Sales will likely continue to be negative on a year-over-year basis until at least the first quarter of 2022 since we'll be comparing against a period that saw a sudden shock in demand for houses following the initial Covid-19 lockdowns.

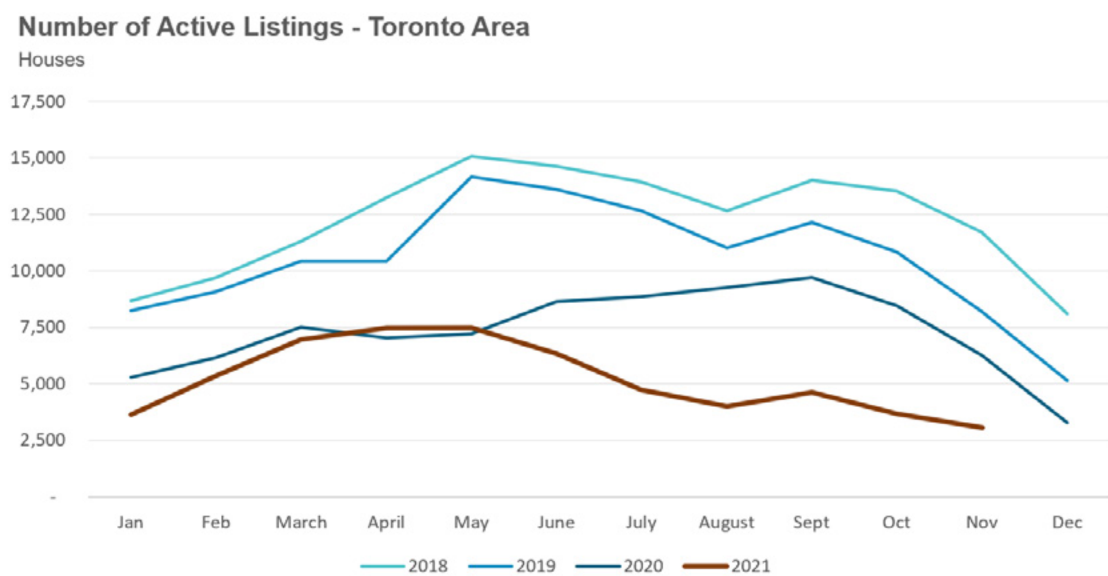
But it's worth noting that sales in November were above levels for the same month in pre-Covid 2018 and 2019.



New listings in November were down 7% over last year. But unlike sales volumes which were strong compared to pre-Covid levels, new listings in November were well below the listings volumes seen in 2018 and 2019.



The number of houses available for sale ("active listings") was down 51% when compared to the same month last year and 62% below the inventory levels seen in pre-Covid 2019.



Why are there so few houses available for sale this year compared to last year?

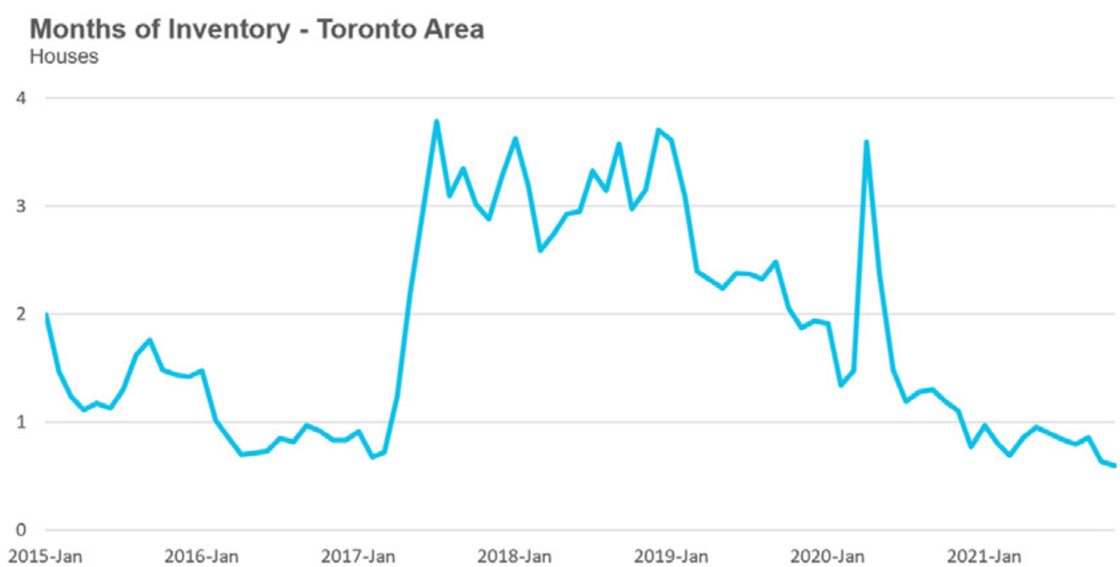
The number of new listings so far this year is actually up 8% over the same period last year. But when we look at the number of sales, they are up 22%. So the dearth of homes for sale is due to a surge in demand which has outpaced any growth in new listings.

The Months of Inventory ratio (MOI) looks at the number of homes available for sale in a given month divided by the number of homes that sold in that month. It answers the following question: If no more homes came on the market for sale, how long would it take for all the existing homes on the market to sell given the current level of demand?

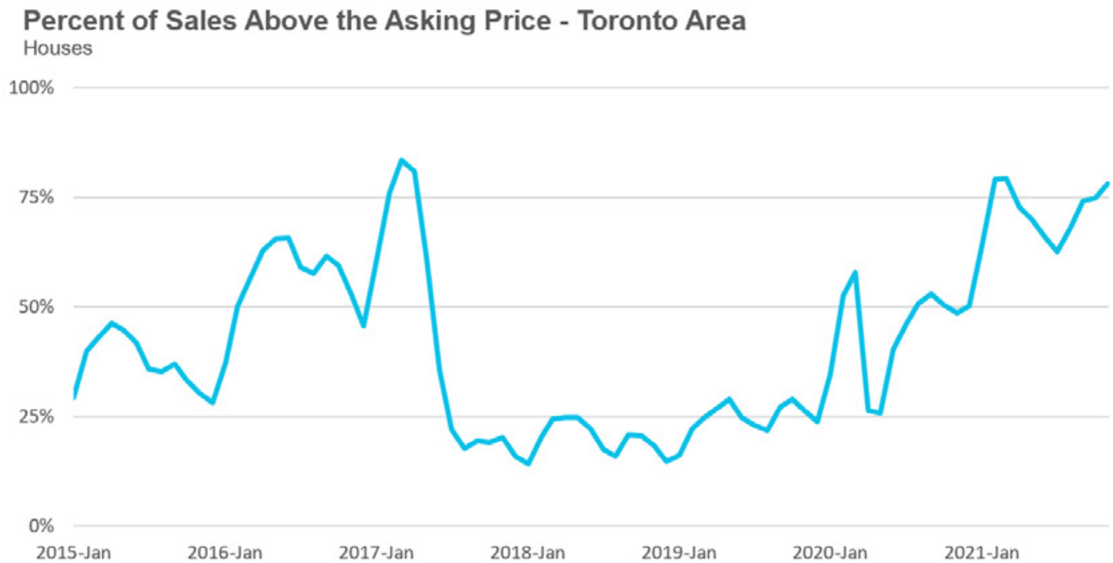
The higher the MOI, the cooler the market is. A balanced market (a market where prices are neither rising nor falling) is one where MOI is between four to six months. The lower the MOI, the more rapidly we would expect prices to rise.

This November, the market remained very competitive with the MOI at 0.6 months for the second month in a row.

While the current level of MOI gives us clues into how competitive the market is on-the-ground today, the direction it is moving in also gives us some clues into where the market may be heading. The MOI has remained relatively stable at or below a very competitive 1 MOI for the past twelve months.

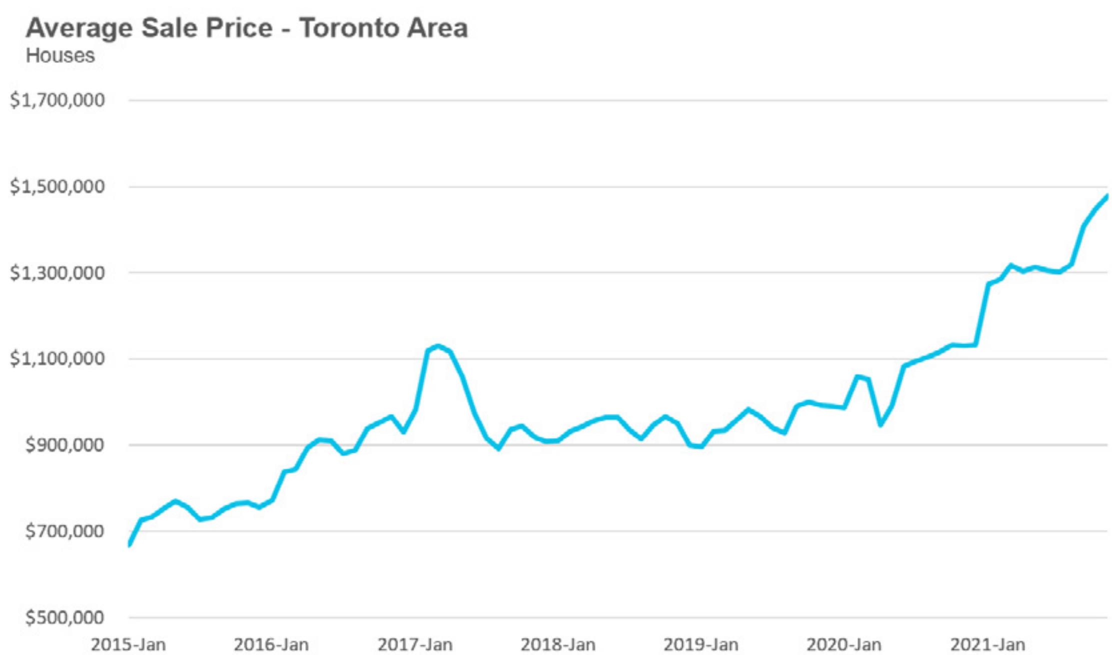


The share of houses selling for more than the owner’s asking price climbed from 68% in August to 78% in November.



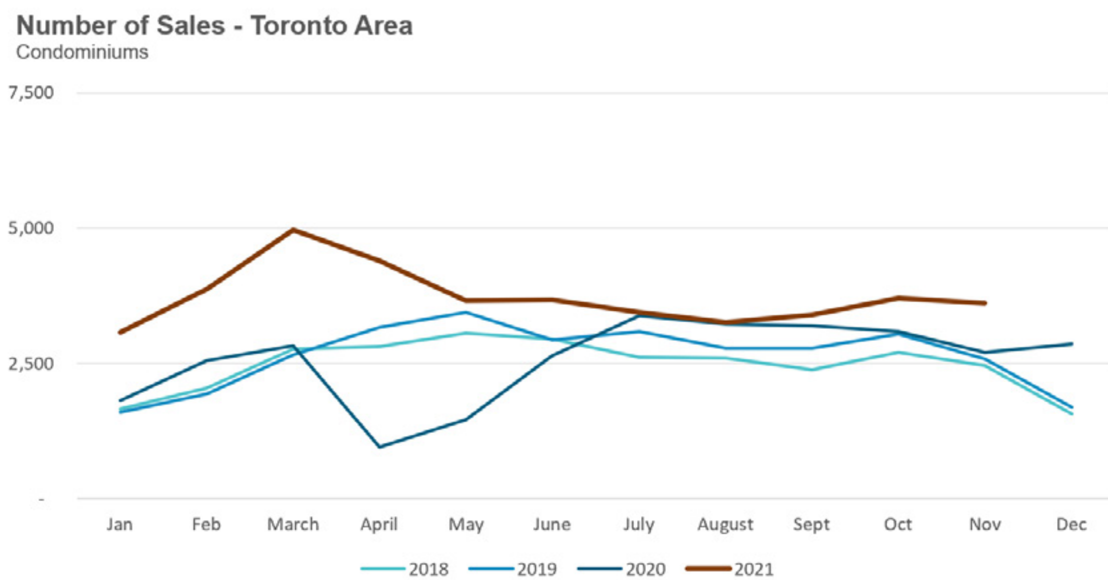
Average house prices had plateaued in 2021, remaining relatively constant in the $1.3M range since the start of the year, but that trend ended this September when average prices surged above $1.4M and average prices continued to climb in November to $1,477,133, up 31% over last year.

The median house price in November was $1,300,000, up 35% over last year.

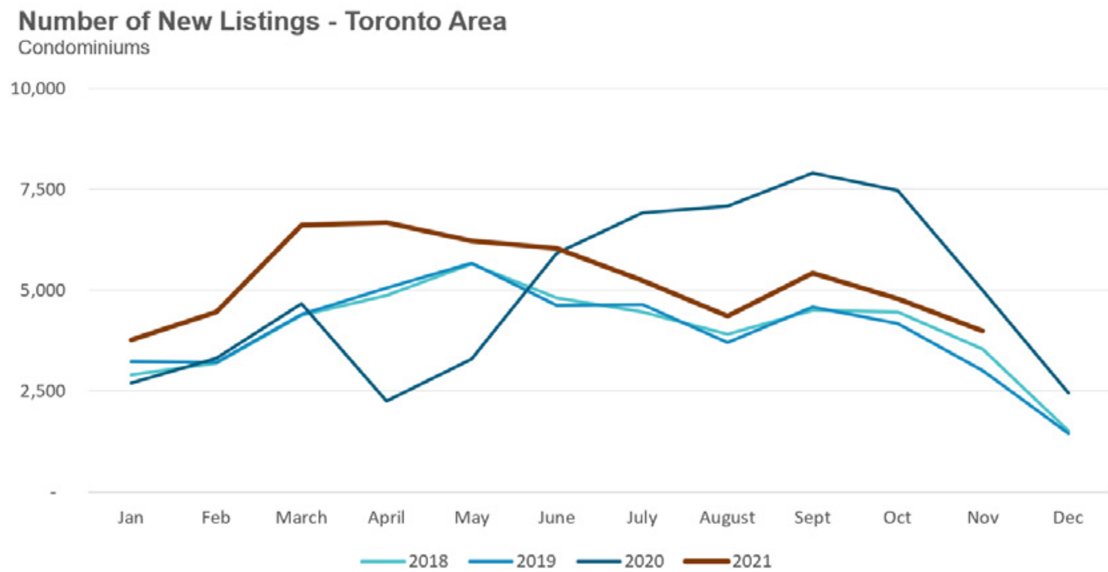


Condo Statistics

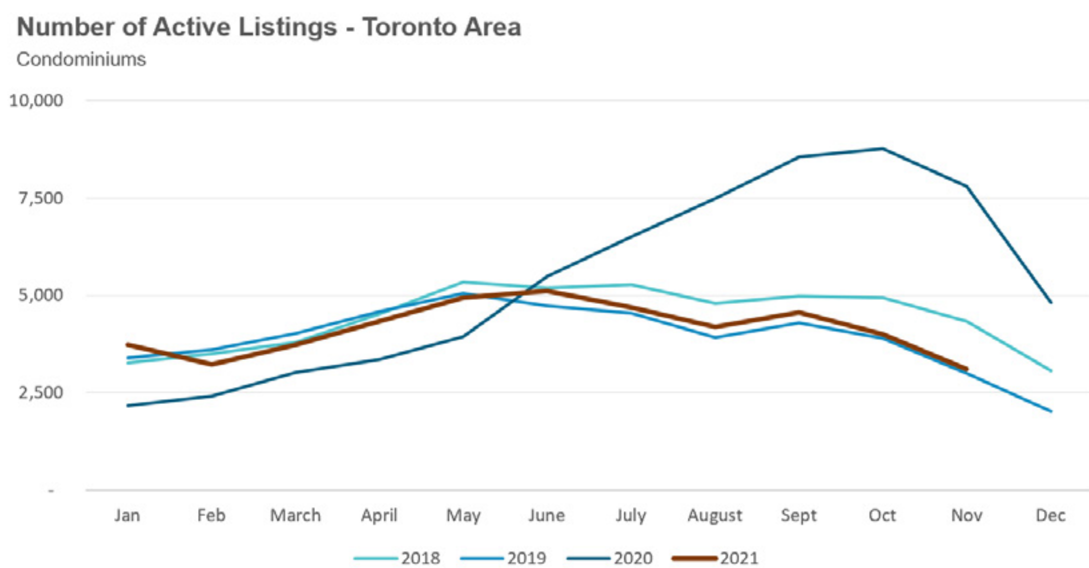
Condo (condominiums, including condo apartments, condo townhouses, etc.) sales in the Toronto area in November were up by 33% over last year and up 40% compared to pre-Covid 2019.



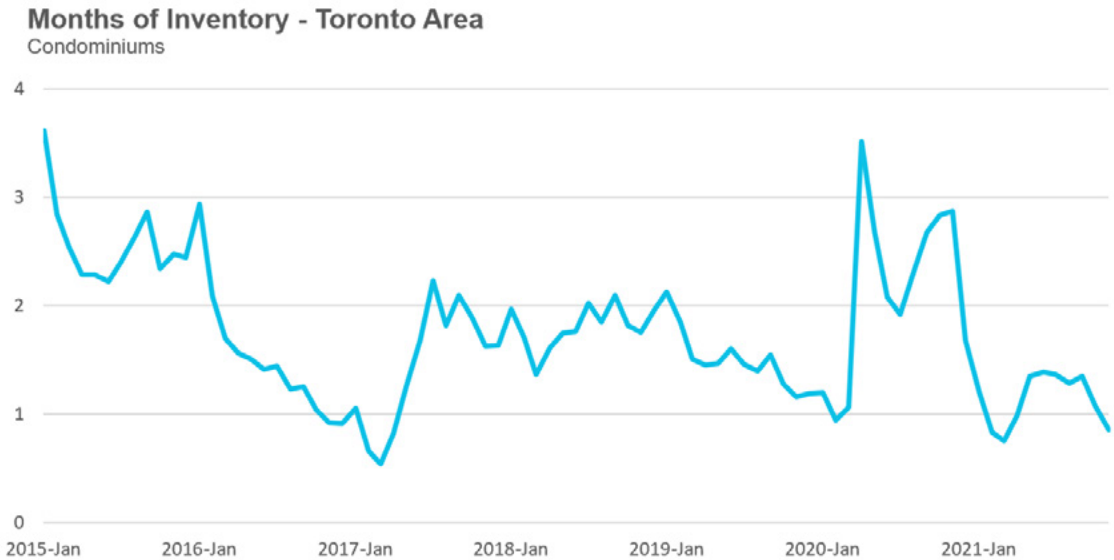
New condo listings were down by 20% in November 2021 over last year, but well above the volumes in 2018 and 2019.



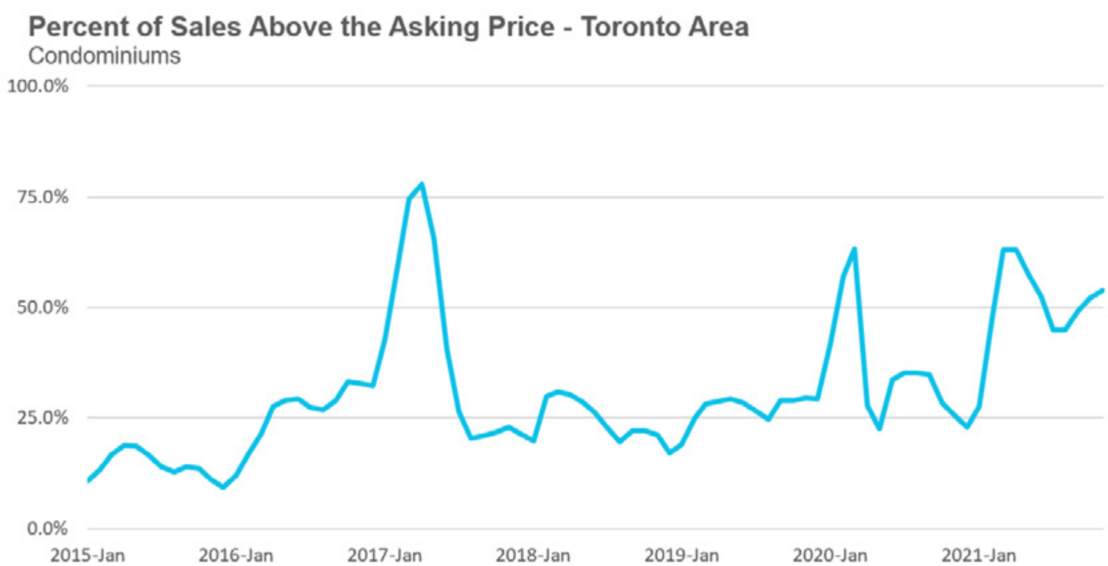
The number of condos available for sale at the end of the month, or active listings, was down 60% over last year, a period that saw a surge in condo listings due to declining prices, falling rents and rising vacancy rates.



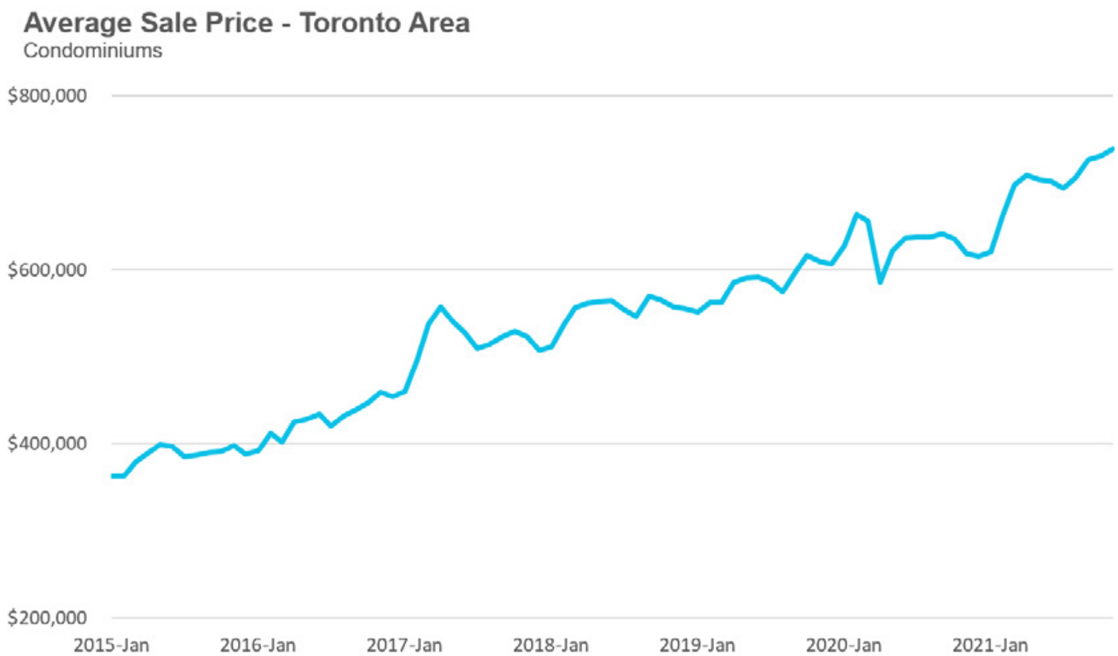
The strong demand helped push the MOI down to just under 1 MOI for the month of November.



The competition for condos picked up very slightly with the share of condos selling for over the asking price rising from 45% in August to 54% in November.



Average condo prices plateaued at approximately $700K for most of 2021, but increases have started to resume over the past two months. The average price for a condo in November reached $738,695, up 19% over last year. The median price for a condo in November was $665,000 up 17% over last year.


Average Sale Price - Toronto Area
Condominiums
$800,000
$600,000
$400,000
$200,000
2015-Jan
2016-Jan
2017-Jan
2018-Jan
2019-Jan
2020-Jan
2021-Jan

Regional Trends

Houses

Sales across all five regions in the GTA were down in November while average prices were up on a year-over-year basis. The decline in new listings helped keep the market competitive with MOI below 1 across the entire GTA, indicating a strong seller's market.

	Sales		Prices		New Listings		Months of Inventory	
	Nov	% Change	Nov	% Change	Nov	% Change	2021	2020
Durham	880	-8%	$ 1,056,986	33%	910	0%	0.4	0.5
Halton	593	-13%	$ 1,578,657	32%	602	-12%	0.4	1.0
Peel	1,145	-16%	$ 1,336,852	33%	1,266	-7%	0.4	0.8
Toronto	1,353	-4%	$ 1,695,741	24%	1,629	-10%	0.8	1.4
York	1,193	-8%	$ 1,623,294	34%	1,411	-4%	0.8	1.6

Condos

Condo sales were up across the GTA in November. Average prices were up double digits in all five regions. Current MOI levels are below 1 in the suburbs and just 1.1 in the City of Toronto signalling a strong seller's market.

	Sales		Prices		New Listings		Months of Inventory	
	Nov	% Change	Nov	% Change	Nov	% Change	2021	2020
Durham	148	11%	$ 631,725	35%	143	8%	0.4	0.8
Halton	214	16%	$ 733,021	17%	221	-17%	0.5	1.7
Peel	576	20%	$ 685,107	23%	548	-27%	0.5	2.0
Toronto	2,271	42%	$ 760,301	17%	2,665	-19%	1.1	3.5
York	408	32%	$ 735,867	20%	406	-28%	0.6	2.9

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[Peel Region Market Trends]

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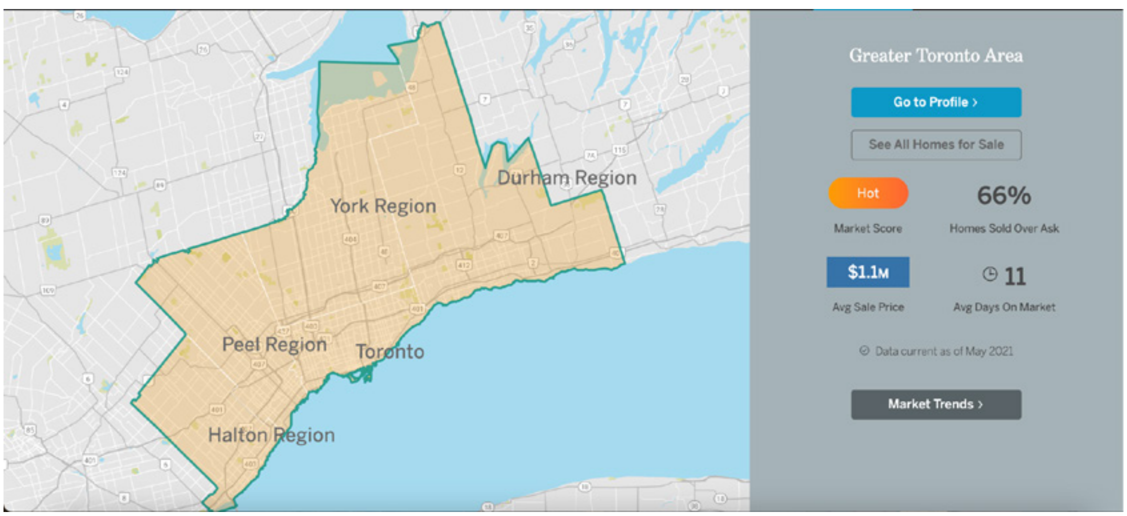

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