MARKET UPDATE

JANUARY 2023

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Buyers Poised to Enter the Market as Interest Rates Stabilize, However Inventory Lags

The Bank of Canada's anticipated pause on interest rate hikes sets the stage for a better spring market for buyers and sellers, provided that there is enough inventory to satisfy demand

GTA Market Activity – January 2023

The average selling price in the GTA for January 2023 at $1,038,668, slightly lower than December 2022 averages, while benchmark prices remain steady month-over-month, a trend which has continued in the GTA since late summer.

The GTA saw 3,100 sales in January, slightly below December 2022 volumes, and down 44.6% from the blistering pace of sales we saw last January. The sales total represents the second lowest instance of sales since 2009. The only other time sales dipped to these levels was April 2020, which of course turned out to be an anomalistic low created by Covid uncertainty. The 2020 uncertainty for the real estate market was short-lived and sales rapidly increased all the way to 15,652 by March of 2021, an all-time high. It is noteworthy that those purchasers willing to come off the sidelines and enter the market were able to realize substantial equity gains since April 2020.

Listings are still selling, on average, in less than one month.

Lack of Inventory Spurs Competition

New listings remained scarce in January. The lack of inventory is creating increased competition for desirable homes, particularly in the low-rise category. Buyers who held off last year on making a move are now competing for quality homes, and in some cases finding themselves in multiple offer scenarios given the insufficient number of listings on the market. Sellers looking to list their home in the remaining winter months may be pleasantly surprised by the attention a well maintained, well priced home will receive in this current market.

"Home sales and selling prices appear to have found some support in recent months. This coupled with the Bank of Canada announcement that interest rate hikes are likely on hold for the foreseeable future will prompt some buyers to move off the sidelines in the coming months. Record population growth and tight labour market conditions will continue to support housing demand moving forward," said Toronto Regional Real Estate Board (TRREB) President Paul Baron.

If the volume of listings remains low, buyers, who are simultaneously feeling impatient and encouraged by stabilizing interest rates, may create some modest upwards pressure on prices on a month-over-month basis, particularly as we move into spring and more buyers come off the sidelines after waiting out the market during last year's interest rate increases.

Bank of Canada Announcement Provides Assurances to Consumers

On January 25th, in light of higher than anticipated employment numbers in December 2022, The Bank of Canada raised its benchmark interest rate by 25 basis points, to 4.5%.While this was the Bank's eighth consecutive interest rate increase, the announcement was primarily significant due to the Bank's inclusion of forward guidance that it expects to hold off on future rate hikes. Economists are already predicting that the Bank of Canada will turn its focus to easing monetary policy by the end of this year. This shift allows consumers to once again rely on mortgage interest rates remaining steady and with that, renews confidence that real estate will not see the declines in value in 2023 that we saw in 2022.

"Home prices declined over the past year as homebuyers sought to mitigate the impact of substantially higher borrowing costs. While short-term borrowing costs increased again in January, negotiated medium-term mortgage rates, like the five-year fixed rate, have actually started to trend lower compared to the end of last year. The expectation is that this trend will continue, further helping with affordability as we move through 2023," said TRREB Chief Market Analyst Jason Mercer

Current three and five year fixed mortgage rates are typically under 5%.

Timing the Market: Some Historical Perspective

While the cost of borrowing has gone up in the last year, the average price of properties across the GTA has fallen from the record highs recorded last winter. This creates an opportunity for wealth accumulation for those willing to make a move.As interest rates stabilize, the likelihood that values move higher in the second half of 2023 increases, resulting in the potential for equity increases for those willing to step to the plate while others continue to sit on the bench. Aggregate values in the GTA are down approximately 20% from the peak, however, compared to average home prices throughout 2020, current prices remain 16% higher over a two-year span. The last time an opportunity like this presented itself in the GTA came during the 2017 market correction. In hindsight, it was an excellent opportunity to enter the market or for those looking to move up in value or asset class. Property values in the GTA have increased 45% since 2017.

JANUARY SALES ACTIVITY

YEAR OVER YEAR CHANGE

-44.6%

MONTH OVER MONTH CHANGE

-0.3%

JANUARY AVERAGE PRICE

YEAR OVER YEAR CHANGE

-16.4%

MONTH OVER MONTH CHANGE

-1.2%

The average selling price was $1,038,668 as compared to $1,051,216 the previous month. The average price is below last year's average of $1,242,407.

The average number of listing days on the market was 29, up from 27 in December 2022. Total active listings were up 124.6% year-over-year, and new listings were down 3.7% year-over-year, from 7,983 in January 2022 to 7,688 in January 2023.

Benchmark price by home type (all TRREB reporting areas):

- The benchmark price for detached homes was $1,360,900, 16.8% lower than in January 2022.
- The benchmark price for attached homes was $1,043,300, 15.3% lower than in January 2022.
- The benchmark price for townhouse homes was $791,500, 11.5% lower than in January 2022.
- The benchmark price for condo apartments was $699,900, 4.1% lower than in January 2022.

Average price by home type (416 and 905):

- The average price for detached homes was $1,341,848, 23% lower than in January 2022.
- The average price for semi-detached homes was $1,019,668, 22.3% lower than in January 2022.
- The average price for townhouse homes was $887,610, 18% lower than in January 2022.
- The average price for condo apartments was $687,696, 8.1% lower than in January 2022.

AVERAGE PRICE BY MAJOR HOME TYPE

$1,341,848 DETACHED	**$1,019,668** SEMI - DETACHED
$887,610 TOWNHOUSE	**$687,696** CONDO

Average Price

BY MAJOR HOME TYPE

DETACHED	JAN SALES	DEC AVG PRICE	JAN AVG PRICE
416	318	$1,627,635	$1,486,124
905	1,066	$1,312,278	$1,298,809

SEMI-DETACHED	JAN SALES	DEC AVG PRICE	JAN AVG PRICE
416	84	$1,152,073	$1,150,506
905	156	$933,122	$949,216

TOWNHOUSE	JAN SALES	DEC AVG PRICE	JAN AVG PRICE
416	92	$878,984	$981,187
905	407	$860,736	$866,458

CONDO	JAN SALES	DEC AVG PRICE	JAN AVG PRICE
416	604	$741,584	$711,171
905	346	$633,135	$646,715

Market Stats

JANUARY 2023

GREATER TORONTO AREA

7,688

NEW LISTINGS

January 2022	7,983	∨	-3.7 %
December 2022	4,074	∧	88.7%

-3.7%

$1,038,668

AVERAGE SALE PRICE

January 2022	$ 1,242,407	∨	-16.4 %
December 2022	$1,051,216	∨	-1.2 %

-16.4%

29

DAYS ON MARKET

January 2022	13	∧	123.1%
December 2022	27	∧	7.4%

123.1 %

3,100

\# OF SALES

January 2022	5,594	∨	-44.6 %
December 2022	3,117	∨	-0.6%

-44.6%

9,299

ACTIVE LISTINGS

January 2022	4,140	∧	124.6%
December 2022	8,692	∧	7.0%

124.6%

‘We suspect the bank will begin to cut in September’: How the Street and money markets are reacting as the BoC signals pause to rate hikes

The Bank of Canada hiked its benchmark interest rate Wednesday by a quarter of a percentage point to 4.5 per cent, its eighth consecutive rate increase. It also provided some significant forward guidance in saying it expects to hold off further rate hikes.

The Canadian dollar and domestic bond yields fell modestly on the news, as overall the bank’s actions were seen as a bit more dovish than expected.

Interest rate probabilities show about 89% odds of the bank making no change to its overnight rate at its next announcement on March 8, according to Refinitiv Eikon data. Money markets are pricing in slim 11% odds of another 25 basis point hike.

But following the bank’s 10 am announcement and Monetary Policy Report, credit markets started making their most aggressive bets yet that the central bank’s key lending rate will start coming down later this year as the bank shifts from inflation fighting to providing support to a slowing economy. They are now fully pricing in a 25 basis point cut by the Oct. 25 Bank of Canada meeting. And they are positioned for an overnight rate of 4.07% by the Dec. 6 meeting. That implies money markets are getting close to pricing in a 50 basis point cut in the overnight rate by the end of this year.

Bank of Canada governor Tiff Macklem, in a press conference, said that rate cuts aren’t yet in the cards. “It is really far too early to be talking about cuts. The pause really is designed to give us time to assess whether we’ve raised interest rates enough to get inflation all the way back to target.”

Yet, economists are also shifting their focus to a possible easing in monetary policy by the end of this year, with some suggesting it’s a strong likelihood. Here’s a snapshot of how Bay Street is reacting:

David Rosenberg, founder of Rosenberg Research
Just as the BoC led in its rate hiking cycle, it is now leading in pivoting towards a pause (“while it assesses the impact of the cumulative interest rate increases”), setting the stage for a similar shift from the Fed in coming months. After the decision, the Canadian dollar was weaker alongside a move lower in GoC yields as the market increasingly prices in the next move being a cut rather than a hike. We agree with this assessment, and fully expect yesterday’s move to mark the final rate increase this cycle. Now, the central bank did give itself an out saying it “is prepared to increase the policy rate further if needed to return inflation to the 2% target.”

But, given the wobbly state of the economy, especially the reeling housing market and debt-laden consumer, the pause is far more likely to be followed by a cut, not another hike. Further to this point, the overnight rate, now at 4.50%, is already well past the central bank's estimated neutral range of 2-3%, which means monetary policy is restrictive by some 150 to 250 basis points. This is sure to bring down inflation fast, with a recession the most likely outcome.

Taylor Schleich, Warren Lovely and Jocelyn Paquet, economists with National Bank of Canada
We'd been hopeful that the Bank would opt for the prudent approach and remain sidelined but in the end, a 25 bp hike was deemed to be the appropriate course of action by the Governing Council. Just as we'd noted in December, we believe the tightening to date is more than enough to bring inflation to target this year and thus, no further rate increases are needed in our view. With policy undoubtedly in restrictive territory, the Bank appears to finally agree. Indeed, as long as economy evolves broadly in line with today's Monetary Policy Report outlook, they expect to hold the policy rate here "while it assesses the impact of the cumulative interest rate increases." Clearly, the bar for further hikes has been raised much higher. Moreover, the revelation in the press conference that a move away from a pause would require an accumulation of data suggests that the March decision will almost certainly be for no change.

Despite marking down their inflation projections, the Bank might still be surprised how quickly price pressures moderate in 2023 (in our view, all-items inflation will back to target in the second half of 2023). Of course, inflation data will still be the key determinant in future decisions but the Bank is also surely hoping to see some slack open up in the labour market in the coming months too. Lastly, despite the on-consensus decision, yields fell non-trivially after the decision. The inversion in the curve and expectation for cuts before the end of the year, suggests that the Bank have already gone too far in their tightening campaign. As inflation continues to move lower, we'd expect to see speculation ramp up in regard to if/when rate cuts can be expected this year. We do think the data in the second half of the year will support modest easing and, at least for now, the Bank has not ruled out this outcome.

Stephen Brown, senior Canada economist, Capital Economics
We continue to judge that the Bank is underestimating how quickly inflation will decline later this year, with our forecasts pointing to inflation of 1.8% in the fourth quarter of this year compared to the Bank's forecast of 2.6%. But even if we are right, the Bank may not be willing to contemplate looser policy until inflation expectations drop sharply. Inflation expectations should decline alongside inflation but, as 70% of firms still expect inflation to be above 2% until 2025 or later, it could take a while for expectations to fully normalise.

The upshot is that we remain confident that today's hike will be the last, but there is still considerable uncertainty about when the Bank will start to loosen policy again. While our assumption continues to be that high inflation expectations and concerns about its credibility will prevent the Bank from loosening policy significantly even as the economy enters recession, we still see scope for the Bank to return its policy rate to the 2.5% midpoint of its 2% to 3% neutral range estimate by mid-2024. We suspect the Bank will begin to cut in September, a little later than July as we previously suggested. That would leave eight months between the last hike and the first cut, which is broadly in line with the historical norm.

Derek Holt, vice-president and head of Capital Markets Economics, Scotiabank
Governor Macklem threw a strike and promptly headed to the dug out for what may only prove to be a rain delay in the fight against inflation.

In hiking 25bps with fairly strong pause language, and only soft pushback against [credit market] rate cut pricing, his decisions motivated a further easing of financial conditions. .... Whether they are done or not depends critically upon the accuracy of their inflation forecasts over time and how labour and housing markets contribute to such views.

It's not the worst outcome that would have been a total whiff and dovish pause that would have prematurely rung the all clear bell on inflation risk. But it's a close second. In driving a further easing of financial conditions today, I think the BoC has taken another micro step toward amplifying upside risk to housing, growth and inflation into 2024 and beyond that point which may frustrate their attempts to get inflation durably under control across the full cycle of what lies ahead.

In calling time-out on hikes, they are placing emphasis upon the lagging effects of tightening into this year when the ship has sailed on that outcome; they are paying little to no heed to the lagging effects of market easing into next year and putting a lot of stock in their ability to forecast waning inflation. Uh oh.

Stefane Marion, chief economist and strategist, and Daren King, senior wealth advisor, of National Bank Financial
The Bank of Canada's latest rate hike will not go unnoticed by the 30% of Canadian mortgage holders who have variable rate mortgages. Between 73% to 80% of variable-rate fixed-payment mortgages originated between 2020 and 2022 will have been triggered during the current central bank tightening campaign. For variable rate mortgages taken out before 2020, the proportion will be 63%, compared to only 25% three months ago. This is what we meant when we said recently that the negative impact of marginal rate increases is not linear at this stage of the economic cycle.

James Orlando, director and senior economist, TD Economics
The BoC's first meeting of 2023 looks to be the last in which it will raise its policy rate. Heading into today, the Bank had communicated that it could go either way with today's decision - deciding between a final hike or a pause. Given the robustness of consumer spending and employment trends, the BoC clearly felt it needed this final hike to solidify the turn in economic momentum.

Looking at the Bank's forecast, the economy is set for a consumer led slowdown, with GDP likely to "stall through the middle of 2023." Greater conviction in this has also led the BoC to cut its inflation forecast. With the belief that the economy is on the path to price stability, the BoC can now step to the sidelines and let its restrictive policy filter through the economy. Though it does have the option to hike again should inflation prove uncooperative, we are expecting it to hold rates at this level for most of 2023, before cutting at the end of the year to drive a better balance between interest rates being too far in restrictive territory and a weakening economy.

Andrew Grantham, senior economist with CIBC Economics

The Bank of Canada hiked rates by a further 25bp today, but provided some unexpected guidance that this may be the peak for the current cycle. The 25bp increase, taking the overnight rate to 4.5%, was well anticipated by the consensus. The Bank pointed to stronger than expected growth at the end of 2022, a tight labour market and still elevated short-term inflation expectations as reasons for the policy move today. However, the statement also pointed to an easing in the 3-month rates of core inflation, and the expectation that overall inflation will come down “significantly” this year due to the energy prices, improvements in supply chains and the lagged effects of higher interest rates. Possibly because of greater confidence that inflation is easing, the Bank changed its guidance to state that if the economy evolves as it expects then the policy rate will be kept on hold at its current level, although the statement also warned that the Bank was willing to raise rates further if needed. The MPR projections for GDP growth are set at 1% this year and 1.8% in 2024, which is little changed relative to October but a bit higher than our own forecasts. Because of that, we suspect that the economy will indeed evolve in-line or even a little weaker than the Bank suspects, and that today’s hike in interest rates will indeed mark the final one of this cycle.

Ian Pollick, managing director & head, Fixed Income, Currency & Commodity Strategy, CIBC World Markets

The Bank of Canada hiked administered rates by 0.25% this morning as we expected, though the accompanying statement was more explicit than anticipated. Even though we believe this is the final hike of the cycle, trying to remove so much optionality so early into the calendar year is problematic for markets. ...Depending on how you read the wording in the final paragraph, one could interpret the language as this being a period of assessment rather than a hard pause. And in the post-statement press conference, Governor Macklem re-branded the commitment as “conditional”.

An obvious question is does the easing priced into this cycle look consistent with those seen in prior tightening campaigns. .... In most cycles markets had expected the Bank to continue hiking, as it is rather unusual to provide such an explicit pause as the Bank provided at the January meeting. Of the four prior hiking cycles, only the 2007 experience saw markets begin to price-in easing within the first quarter following the last hike. On a relative basis it is strange for such an aggressive easing path to be priced so early.

Royce Mendes, managing director and head of macro strategy, Desjardins

The statement now says that the Governing Council expects to hold the policy rate at its current level while it assesses the impact of past rate hikes. That likely ensures a pause in the rate hiking cycle for at least the next few months. Our forecast for the economy in 2023 is more downbeat than the one included in the Monetary Policy Report. As a result, we expect that this will be the final rate hike of this cycle.

**Benjamin Reitzes, managing director, Canadian rates and macro strategist,
BMO Capital Markets**

While policymakers haven’t shut the door on more hikes, the bar for further tightening is quite high. It looks like a March move is off the table barring some wild data. The April policy decision will be more definitive as we’ll have a few employment and CPI reports by then. BMO’s base case remains that the BoC is on hold through the rest of 2023.

Sal Guatieri, senior economist with BMO Capital Markets
Wednesday's rate hike and conditional pause by the Bank of Canada suggest that, if all goes according to plan on inflation, peak mortgage rates are in place for this cycle. Variable mortgage rates have now pushed above 6%, which is a generational swing from the 1.5% range just a year ago. But, a near-100 bp decline in 5-year GoC yields since October has taken the heat out of fixed-rate mortgages of that term. Five-year fixed rates are now tracking below 5%, with some more downward drift possible in the near term. For the spring market, the BoC's clear message will instill some confidence in potential buyers that the aggressive upward move in rates is likely done. And, the move down in fixed rates will help affordability a bit, even if there is still some more price adjustment needed. Look for the market to start clearing at these lower prices, and for sales volumes to pick up.

In Toronto real estate, a small bounce amid uncertainty

Canada's housing market will slowly grind lower in 2023 before finding a bottom later this year, predicts Randall Bartlett, senior director of Canadian Economics at Desjardins Group.

"We think the worst is behind us," he says of the correction in real estate so far.

Still, buyers are likely to remain cautious as some price discovery takes place, Mr. Bartlett added in an interview.

"Nobody wants to catch a falling knife."

By the end of December, the national average house price had dropped 20 per cent from its early 2022 peak, and Mr. Bartlett figures it will slip up to five per cent from that level.

Debt-burdened homeowners – particularly those with variable rate mortgages – are likely to find the first quarter the most challenging, says the economist, following the eighth interest rate hike by the Bank of Canada as it strives to bring down inflation.

The central bank also signalled its intention to pause at the latest meeting after moving the policy rate from 0.25 per cent in early 2022 to 4.5 per cent.

Mr. Bartlett is not expecting a wave of distressed homeowners to sell their properties this year, but they will likely rein in spending, he says.

That decrease in consumption will likely contribute to a short and shallow economic recession, according to Mr. Bartlett.

He cautions, though, that the risks to his forecast are tilted to the downside, partly because of the prevalence of people taking out variable rate mortgages during the pandemic.

If the recession turns out to be more severe than he expects, more workers are likely to lose their jobs and another leg down in the housing market is a real possibility, he warns.

His base case is that real estate prices will find a floor in the third or fourth quarter, he says, and Desjardins has pencilled in a rate cut by the Bank of Canada for October or December.

Looking farther ahead, Mr. Bartlett is concerned that slow sales in the current market for pre-construction condo units will lead to a shortage of units in the coming years. While a rush of supply will come on this year and next after a sales boom during the pandemic, that segment is currently in a slump and immigration is expected to increase.

In Toronto, meanwhile, the end of one year and start of the next has brought a sudden flurry of sales, agents say.

Christopher Bibby, broker with Re/Max Hallmark Bibby Group Realty, says some properties that had been lingering on the market all through the fall sold at the end of December or beginning of January.

“I never would have predicted January would be our opportunity,” he says of selling the various properties that were first listed in April, July and August.
Mr. Bibby says the opening salvo of many buyers is an offer well below the asking price, but some back-and-forth usually leads to an agreement.

“Frequently people will call just to gauge the motivation or how desperate we are.”
In one case, a unit at 55 Stewart St. was listed with an asking price of $2.595-million. The buyer chiseled that figure down to a sale price of $2,478,600.

In another case, sellers had actually taken their one-bedroom unit at 301 Markham St. off the market with a plan to relist in the spring. A downsizing couple who had looked at the unit when Mr. Bibby had it listed for $629,900 in the fall contacted him in early January and asked to see it again.
They struck a deal for $600,000.

Typically, condo units sold for between 3 and 6 per cent below the asking price, he says.
“People feel they need some cushioning if prices go down a bit.”

That’s a significant change from the fall when many properties did not even have showings, he says. Long closings in the 120-day range are increasingly common these days, he adds.

Some agents have reported spirited bidding wars in the Greater Toronto Area – particularly when properties are listed with an asking price far below market value.

In the east end of Toronto, for example, a rundown two-bedroom house was listed with an asking price of $349,000 and drew more than 30 offers. It sold just above $600,000.

In Mr. Bibby’s opinion, most market participants are in no mood for the strategy of attracting eyeballs with an unrealistically low asking price. Listing agents report registered offers, he notes, and often just one offer is enough to discourage others who had viewed the property.

He says an effort to drum up a bidding war can backfire for the seller because they may not get the price they were hoping for and all other potential buyers will know it.

“The minute we say we have an offer, no one wants to compete downtown,” he says. “Once that notice goes out, all eyes are on you.”

With some confidence returning to the market, Mr. Bibby has six properties lined up to list in the coming weeks, but he points out that activity remains very unpredictable. He is not seeing any signs that suggest prices will skyrocket and recommends that potential sellers gauge their own comfort level.

“If the timing doesn’t feel right, don’t do it,” he advises sellers.

Elli Davis, real estate agent with Sotheby’s International Realty Canada, was surprised when two buyers submitted offers for different Bay Street condo units at 9 p.m. on a Saturday night.
Both condos were listed around the $1-million mark and deals firmed up within a few days.
A two-bedroom unit at Granite Place in midtown Toronto received two offers after Ms. Davis launched it during the first week of January.

The 1,312-square-foot unit was listed with an asking price of $1.195-million and sold for $1.3-million.
Ms. Davis says buyers and sellers continue to move for the usual reasons: They are leaving Toronto, expanding their family or downsizing.

“Not everyone is so affected by the economy and interest rates.”

Ms. Davis encourages potential sellers to list when there is so little inventory available, but she stresses that they also need to be realistic about the asking price. Some are dismayed about the tumble from the heights of early 2022.

“‘I don’t want to give my place away,’” is a common refrain, she says, as sellers adjust their mindsets to lower prices.

Her usual response to that is, “let’s look at what you made,” she says, pointing out the gains to sellers who have owned their properties for many years.

Manu Singh, real estate agent with Right at Home Realty Inc., says January was unexpectedly busy for him after a moribund final quarter to the year.

He saw a discernible shift in the segment below $749,000 while he was working with a first-time buyer who purchased a loft in a boutique building near Queen Street W. and Dovercourt Road. Mr. Singh advised the young professional to take her time looking because units were languishing on the market. Suddenly 25 showings had been booked for the one-bedroom-plus-den unit on Dovercourt Road listed with an asking price of $707,900.

“I hadn’t seen this for months,” he says.

The sellers had already rejected one bid below the asking price when Mr. Singh’s client struck a deal with an offer of $715,500.

Mr. Singh believes pent-up demand from buyers who sat out the fourth quarter is one reason for the spurt. Many have preapproved financing lined up and they wanted to take advantage of the rate they were offered before the Bank of Canada’s January meeting.

In the months ahead, Mr. Singh expects the market to remain fairly flat. Investors are still reluctant to buy, he adds.

“I think rates have actually scared them.”

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