



Canadian Housing Market:

The Winners, Losers and Big Fat Losers

Presented by:

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2018

The Canadian Housing Market

- Housing Market: A Tale of 3 Cities: Winner: Montreal, Loser: GVA and Big Fat Loser GTA
- Who Wants to be a Housing Millionaire?
- Growing risks to financial stability
 - Housing Market
 - Household Debt
- GTA/GVA: Short Term Adjustment or Pop Goes the.....
- Public Policy on Housing: Did we Finally KILL the Patient?
- Final thoughts: Is this the end?

Comparing GTA vs GVA vs GMA:



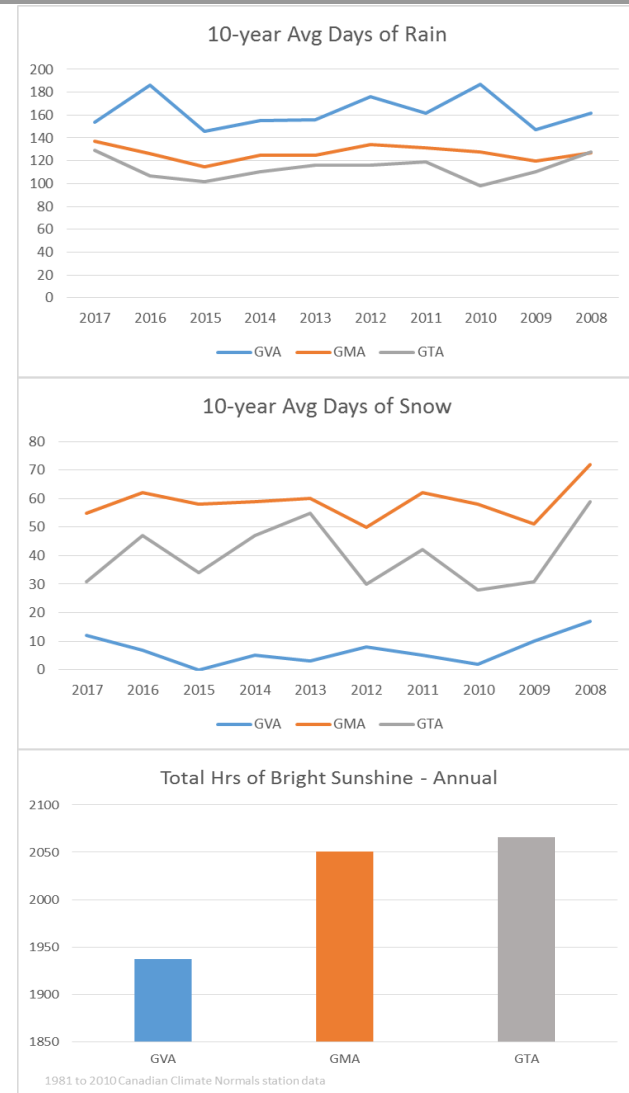
GTA has the least amount of rainy days.
GVA has the most amount of rainy days.



GVA has the least amount of snow days.
GMA has the most amount of snow days.



GTA has the most amount of bright sunshine.
GVA has the least amount of bright sunshine.



The Winners: Long Time GTA Home Owners



The place: A four-bedroom detached home in the Beaches

What they paid: \$679,900 in 2001

What they sold for: \$2.55 million in 2017

Return rate: 275%, compared to 111% TSX return for the same period of time

The Winners: Long Time GTA Home Owners



The place: A three-storey semi near the Danforth

What they paid: \$116,000 in 1982

What they sold for: \$1.4 million in May 2017

Return rate: 1107%, compared to 684% TSX return for the same period of time

The Winners: Really, Really Long time Home Owners



The place: A three-bedroom detached at Bathurst and Finch

What they paid: \$65,400 in 1974

What they sold for: \$1.8 million in May 2017

Return rate: 2652%, compared to 1409% TSX return for the same period of time

The Winners: Anybody With a House in the GTA



The place: A three-bedroom detached at Mount Pleasant and Davisville

What they paid: \$1 million in 2012

What they sold for: \$2.1 million in July 2017

Return rate: 110%, compared to 31% TSX return for the same period of time

The Winners: Seriously, Anyone With a House



The place: A four-bedroom rectory in Trinity Bellwoods

What they paid: \$195,000 in 1993

What they sold for: \$1.59 million in May 2017

Return rate: 715%, compared to 295% TSX return for the same period of time

The Winners: GVA Home Owner



The place: A six-bedroom house in Renfrew Heights, Vancouver East

What they paid: \$815,000 in 2009

What they sold for: \$1.55 million in July 2017

Return rate: 90%, compared to 48% TSX return for the same period of time

The Winners: Anybody with a house in GVA



The place: A four-bedroom house in Marpole, Vancouver West

What they paid: \$1.15 million in July 2012

What they sold for: \$2.49 million in July 2017

Return rate: 116%, compared to 31% TSX return for the same period of time

The Winners: Anybody with a house in GVA



The place: A Six-bedroom house in MacKenzie Heights, Vancouver West

What they paid: \$2.18 million in September 2016

What they sold for: \$2.63 million in December 2017

Return rate: 21%, compared to 10% TSX return for the same period of time

The Winners: Hamilton Home Owners



The place: A three-bedroom detached bungalow in Rural Flamborough, Hamilton

What they paid: \$528,000 in 2009

What they sold for: \$850,000 in 2017

Return rate: 61%, compared to 48% TSX return for the same period of time

The Winners: Montreal Home Owners



The place: A three-bedroom semi-detached house in Le Plateau-Mont-Royal, Montreal

What they paid: \$595,000 in 2012

What they sold for: \$830,000 in 2017

Return rate: 39%, compared to 25% TSX return for the same period of time

The Losers: Calgary Home Owners



The place: A four-bedroom house in MacEwan Glen, Calgary

What they paid: \$380,000 in April 2012

What they sold for: \$490,000 in July 2017

Return rate: 29%, compared to 24% TSX return for the same period of time

The Losers: Winnipeg Home Owners



The place: A four-bedroom house in Mission Gardens, Winnipeg

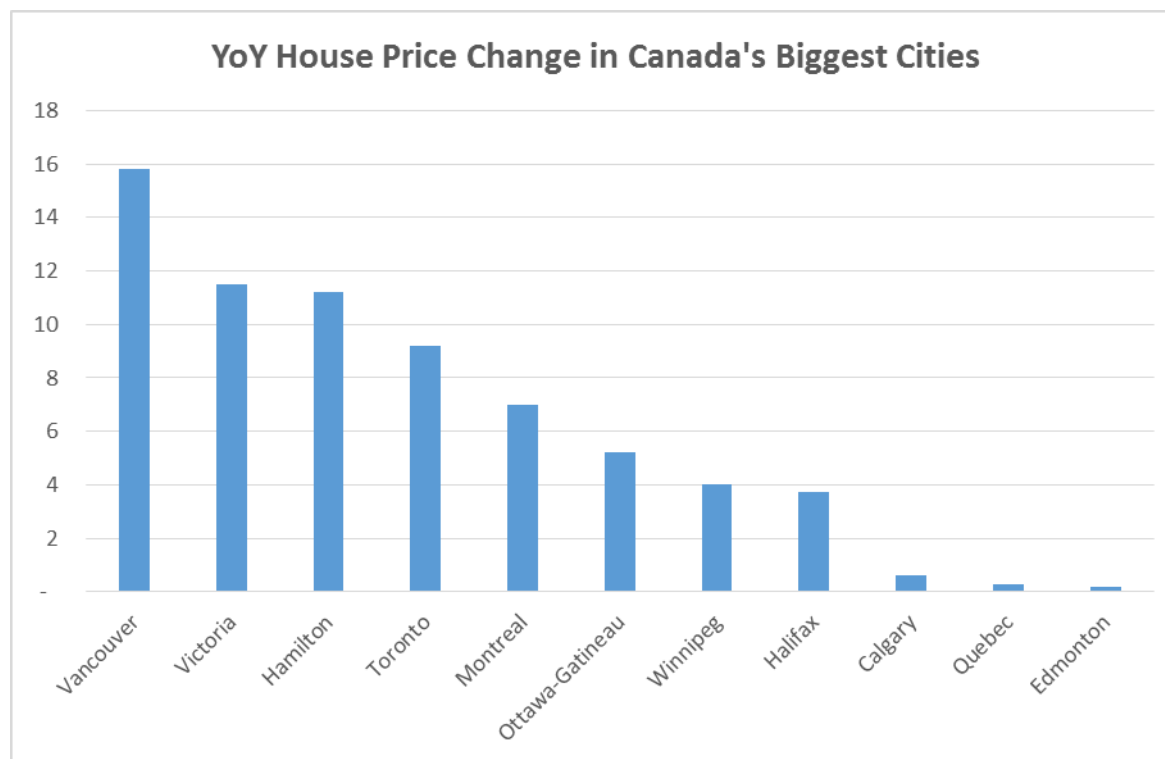
What they paid: \$364,900 in 2012

What they sold for: \$409,900 in 2017

Return rate: 12%, compared to 31% TSX return for the same period of time

The Big Winners: Year-over-year House Price Change

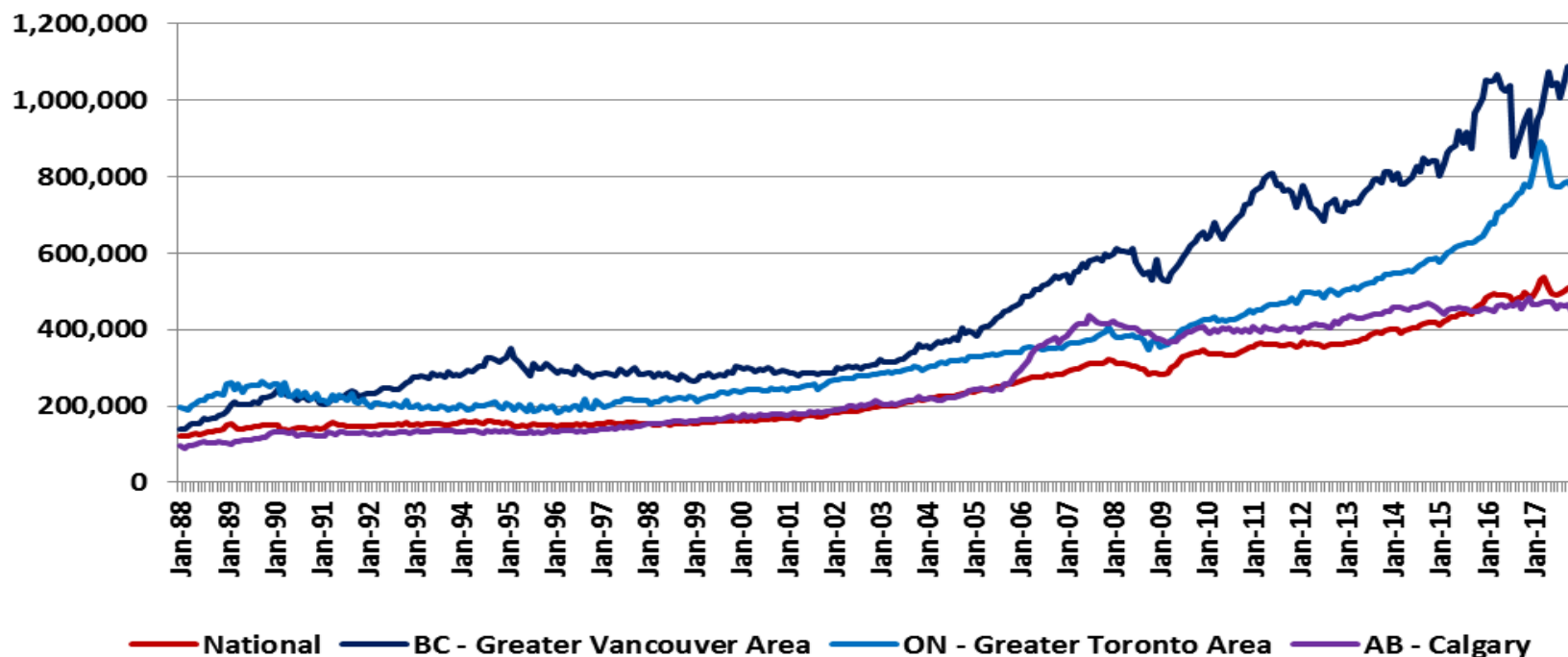
- As of December 2017:



The Winners: Current Home Owners: House Price Canada v. Vancouver v. Toronto

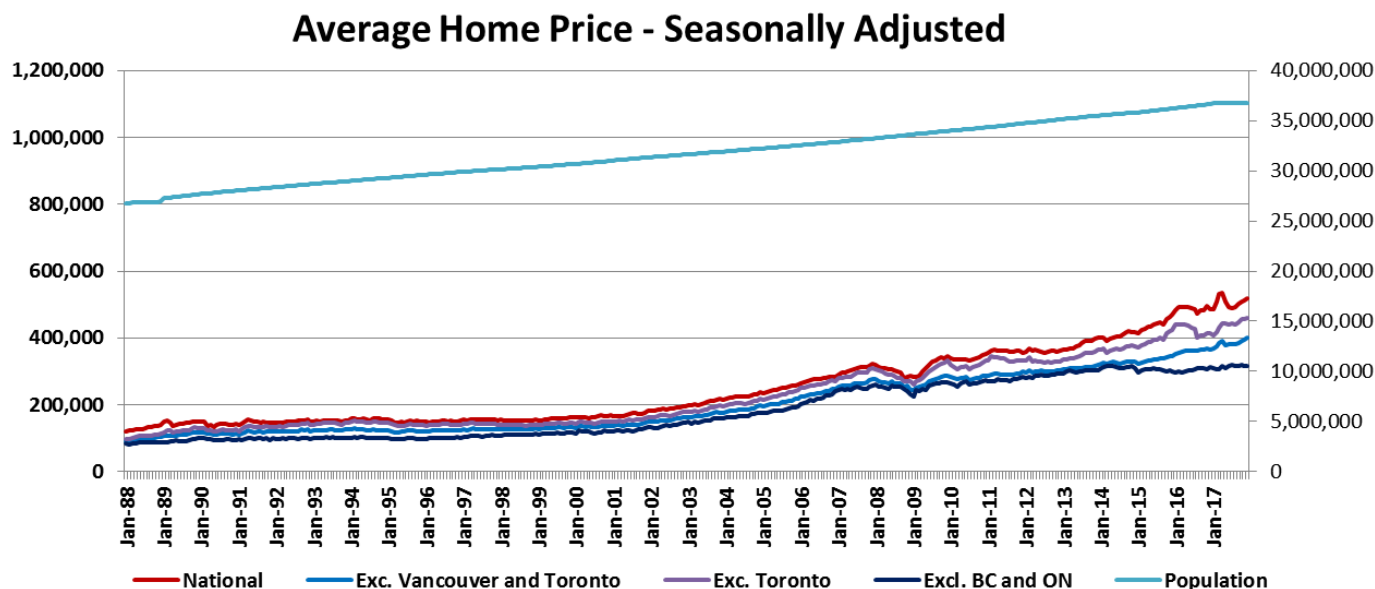
- Overall, the national average resale home price increased by 5.9% over the last year.
- Housing prices were rising steadily since 1988 to an average resale home price of \$517,263 in December 2017, led by increases in the Greater Vancouver Area (GVA) and the Greater Toronto Area (GTA).

Average Home Price - Seasonally Adjusted



The Winners: Current Homeowners: Ontario and B.C. Drives National Price Increases

- GVA YOY average resale home price increased by 10.5% over the last year (2017 year end level is 4.5% higher than July 2016).
- GTA YOY average resale home price increased by 1% over the last year (it increased significantly in Q1 up to April, but dropped since May due to the new Non-Resident Speculation Tax).
- Excluding GVA and GTA, the national average resale home price increased by 8.8% over the last year.
- Excluding just GTA, the national average resale home price increased by 11.6% over the last year.
- Excluding British Columbia and Ontario, the national average resale home price has been flat.

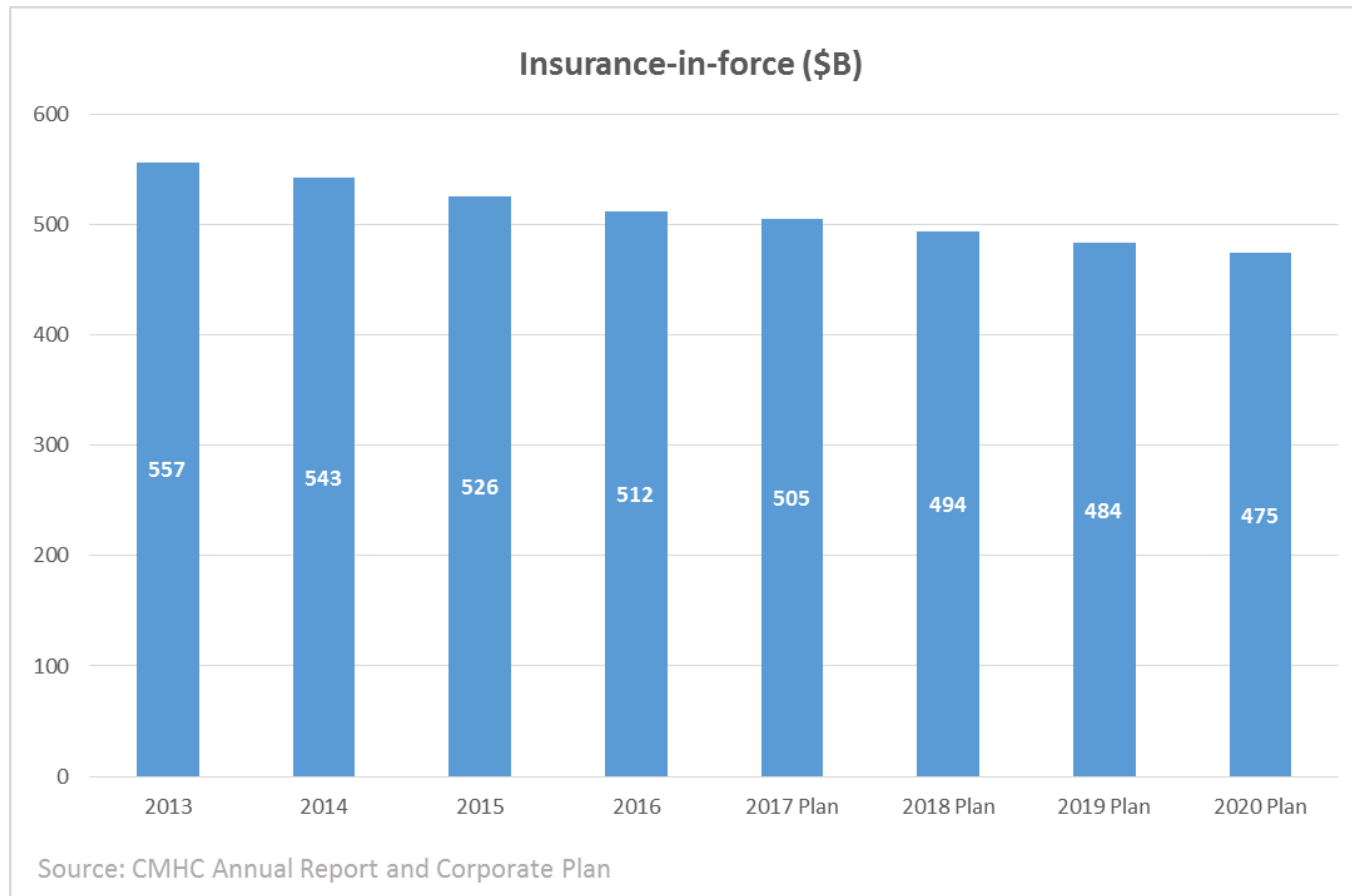


The Winners: Always Bet on The Government

- OSFI: increased Requirements for B20 will lead to higher quality mortgages at OSFI regulated banks thereby reducing a risk of impaired loans in the future.
- Under the revised guideline, federally-regulated financial institutions (FRFIs) must set the qualifying rate for non-insured mortgages at the greater of the contractual mortgage rate plus 2% or the five-year benchmark rate published by the Bank of Canada.
- According to RBC, roughly 45% of domestic banks' mortgage portfolios and more than 70% of all originations are non-insured.
- Given the increase of house prices over the past number of years, borrowers have tended to borrow the absolute maximum. The new stress test has ended this practice
- An example:
 - Before Jan 1st: House purchase of \$700,000 with a 20% down-payment and be qualified for a 5 Years fixed rate of 3.49% on a household income of around \$ 120,000 (Gross Debt Servicing ratio of 32%).
 - After Jan 1st: Interest rate went up by 2% to 5.49%. Same household income of \$120,000, same 20% down-payment, but cheaper house (\$ 560,000 instead of \$700,00)
 - Solution: buy cheaper house or increase your income by around 20% (to \$ 142,000) or increase your down-payment to 35% (\$ 245,000).

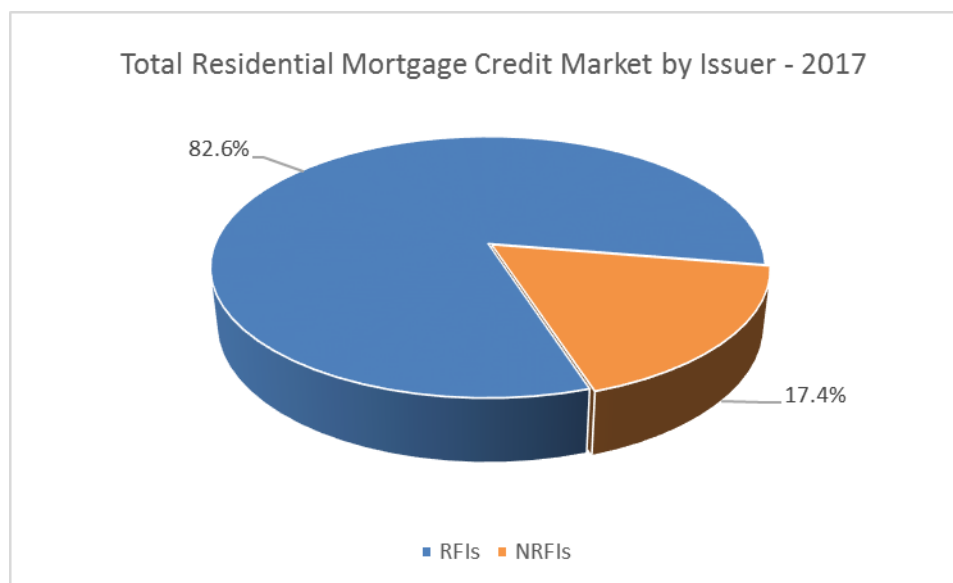
The Winners: Always Bet on ... The Government

- CMHC: With fewer borrowers qualifying for insurance, CMHC's Insurance-in-force is set to reduce substantially in next few years.



The Winners: Unregulated Lenders

- Currently, 17% of the total residential mortgage credit are issued by Non-OSFI regulated Financial Intermediaries.



The Losers: New Buyers in the GTA: Single-Detached: YOY Volume and Price

- Greater Toronto Area REALTORS® reported 92,394 sales through TREB's MLS® System in 2017. This result was down 18.3% compared to the record set in 2016.
- Much of the sales volatility over the last year was driven by government policy decisions.
- During 2017, there were record sales in the Q1, followed by a decline in Q2 and Q3 after the Ontario Fair Housing Plan was announced. The sales picked up in Q4 in response to the new OSFI stress test guidelines effective January 1, 2018.
- In January 2018, detached home sales in Toronto dropped 27% and its average selling price dropped 9.2% compared to January 2017.

	Jan-17		Jan-18		Year-Over-Year % change	
	Sales Volume	Avg Price	Sales Volume	Avg Price	Sales Volume	Avg Price
Detached	2261	\$1,068,670	1659	\$970,823	-26.6%	-9.2%
Semi-Detached	423	\$728,814	364	\$715,784	-13.9%	-1.8%
Townhouse	777	\$617,001	675	\$613,739	-13.1%	-0.5%
Condo Apartment	1636	\$442,598	1275	\$507,492	-22.1%	14.7%

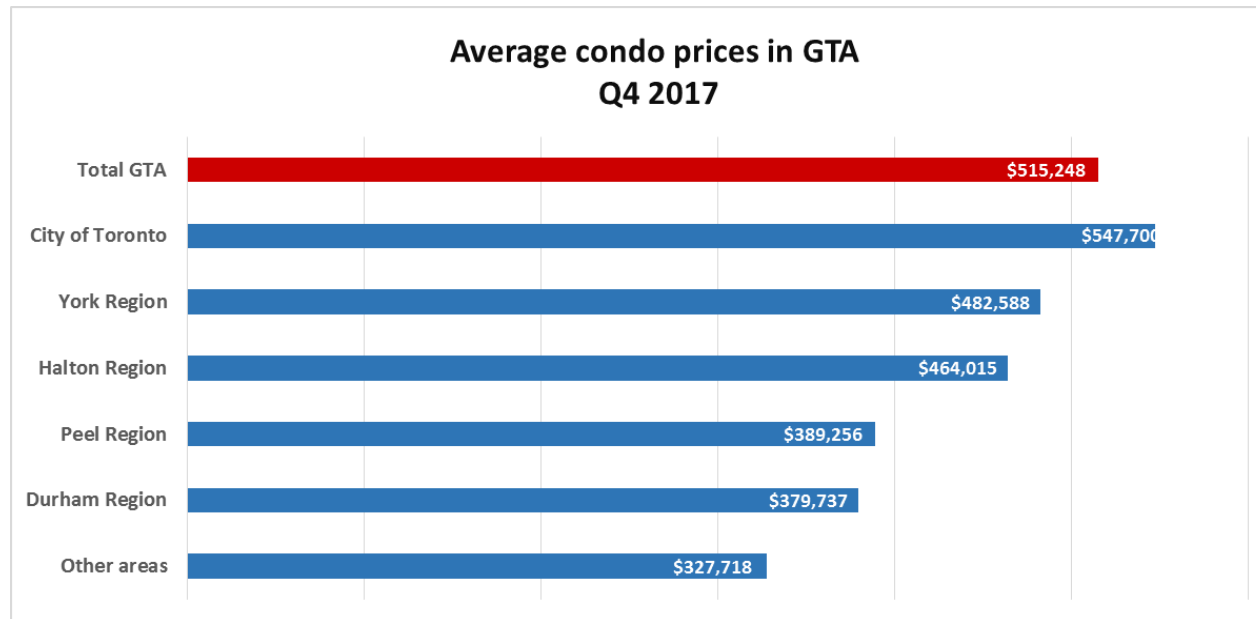
The Losers: New GTA Buyers: Single-Detached: two-year Volume and Price

- Average monthly sales January 2016 versus January 2018

	Jan-16		Jan-18		% Change	
	Sales Volume	Avg Price	Sales Volume	Avg Price	Sales Volume	Avg Price
Detached	2109	\$848,999	1659	\$970,823	-21.3%	14.3%
Semi-Detached	452	\$568,723	364	\$715,784	-19.5%	25.9%
Townhouse	731	\$483,261	675	\$613,739	-7.7%	27.0%
Condo Apartment	1302	\$386,165	1275	\$507,492	-2.1%	31.4%

The Losers: New GTA Condo Buyers: What Foreign Tax?

- Demand for condominium apartments remained strong in Q4 2017.
- The average condo cost was \$515,248 in Q4 2017 — 18% higher than Q4 2016.
- Their relative affordability makes condos attractive to many households, especially first-time buyers.



The Losers: GTA Renters: Not Getting Any Cheaper

- The average rent for one-bedroom condominium apartments in the TREB market area was up by 10.9% on an annual basis to \$1,970 in Q4 2017. The average two-bedroom condominium apartment rent was up by 8.8% over the same period to \$2,627.
- The total number of condominium apartments listed during Q4 2017 was down by 3.4% compared to Q4 2016. The three-bedroom units leased was up by 22%.
- Average rents continued to grow well-above Canada's annual rates of inflation (1.6% in 2017 according to bank of Canada)

Rental Market (Apartments)

	Bachelor		One-Bedroom		Two-Bedroom		Three Bedroom	
	Leased	Avg Rent	Leased	Avg Rent	Leased	Avg Rent	Leased	Avg Rent
Q4 2017	201	\$1,670	3264	\$1,970	2053	\$2,627	150	\$3,524
Q4 2016	226	\$1,512	3375	\$1,776	1986	\$2,415	123	\$3,283
Year-Over-Year % change	-11.1%	10.5%	-3.3%	10.9%	3.4%	8.8%	22.0%	7.4%

The Losers: GTA Renters: Not Getting Any Cheaper

- With the vacancy rate for rental homes in the Toronto area hovering near one per cent, a 27-year-old downtown resident put himself on a movie poster to get landlords to notice him.

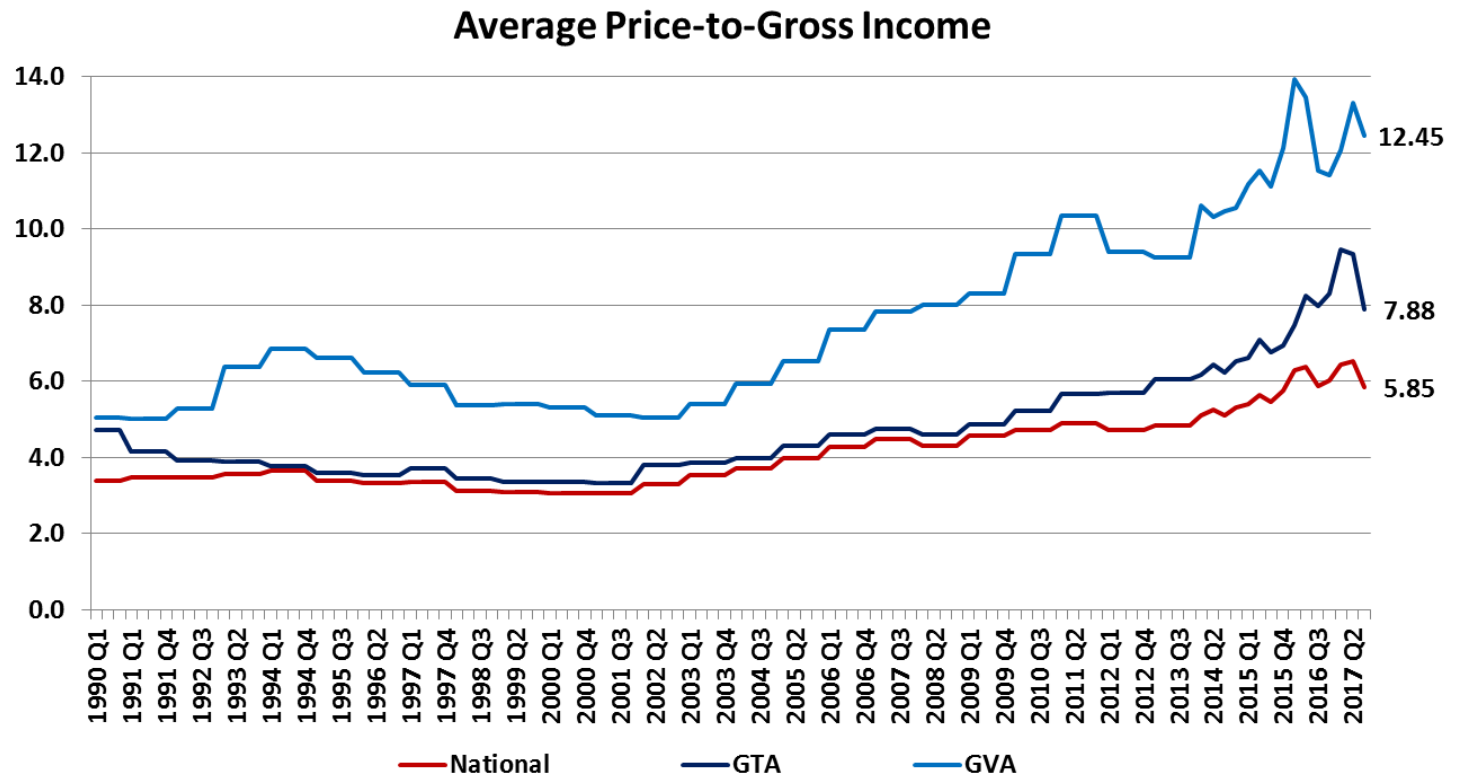


The Losers: Foreign Buyers in GTA and GVA: Impact of Foreign Tax

- Ontario and B.C. have rules in place to try and dampen foreign interest in buying up properties as investments to cool prices.
- Non-residents owned 3.4 per cent of all residential properties in Toronto and 4.8 per cent of residential properties in Vancouver, according to new housing statistics by Canada Mortgage and Housing Corp. and Statistics Canada.
- CMHC says that overall, foreign buyers owned less than one per cent of the condo stock in 17 metropolitan areas across the country.
- Data from CMHC suggests that the foreign buyer tax in both provinces has shifted foreign ownership to other parts of the country.
- The CMHC survey found that downtown Montreal and the city's Nun's Island had the largest increases in the share of non-resident owners over the last year.
- Montreal real-estate sales growth hits 10-year high while Toronto, Vancouver sales decrease.

Big Fat Loser: Consumers: Average Home Price-to-Average Income

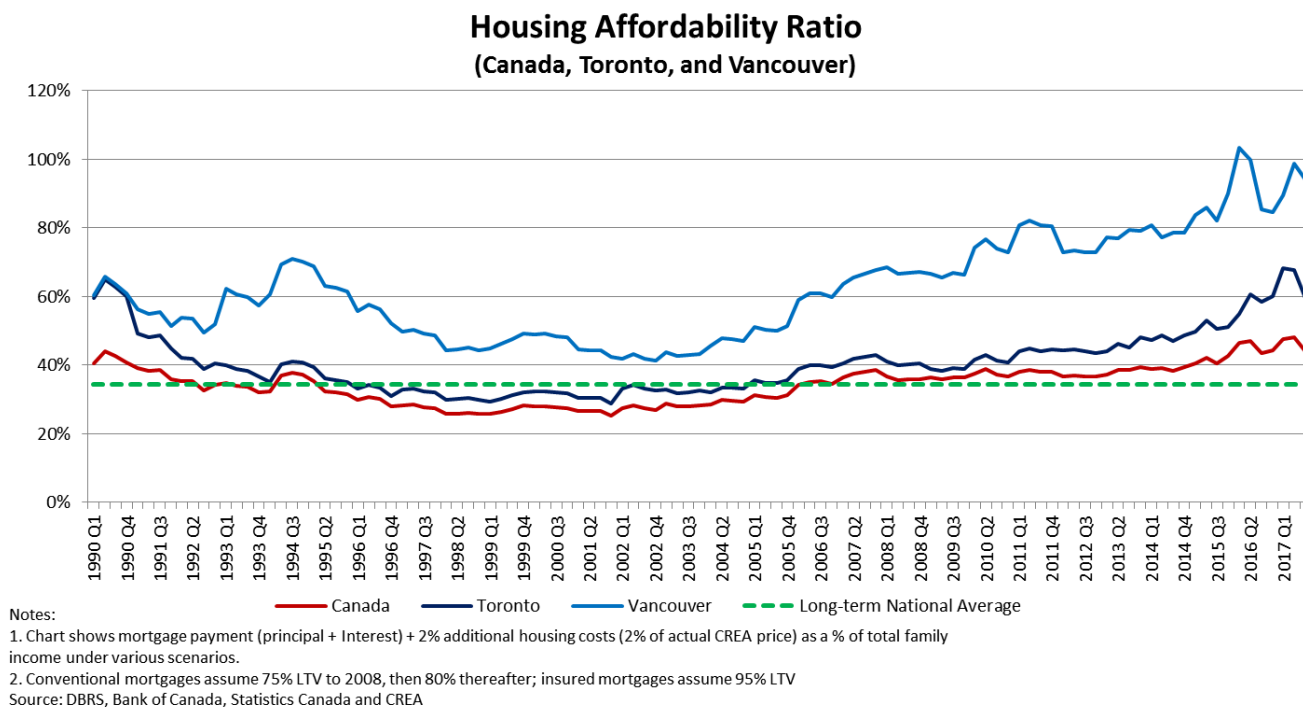
- 3.4x in 1990 -> 5.9x in Q3 2017 (down from 6.14 in 2016).



Big Fat Losers: Consumers

Affordability Is at an All-Time Low

- The current 39% cap on the GDSR applicable to high-ratio insured mortgages now applies to portfolio-insured mortgages.
- The current estimated GDSR for a 25-year conventional mortgage for an average family on an average home is 94% in Vancouver, 60% in Toronto and 44% on average in Canada (compared to one year ago: 85% in Vancouver, 59% in Toronto and 44% on average in Canada).



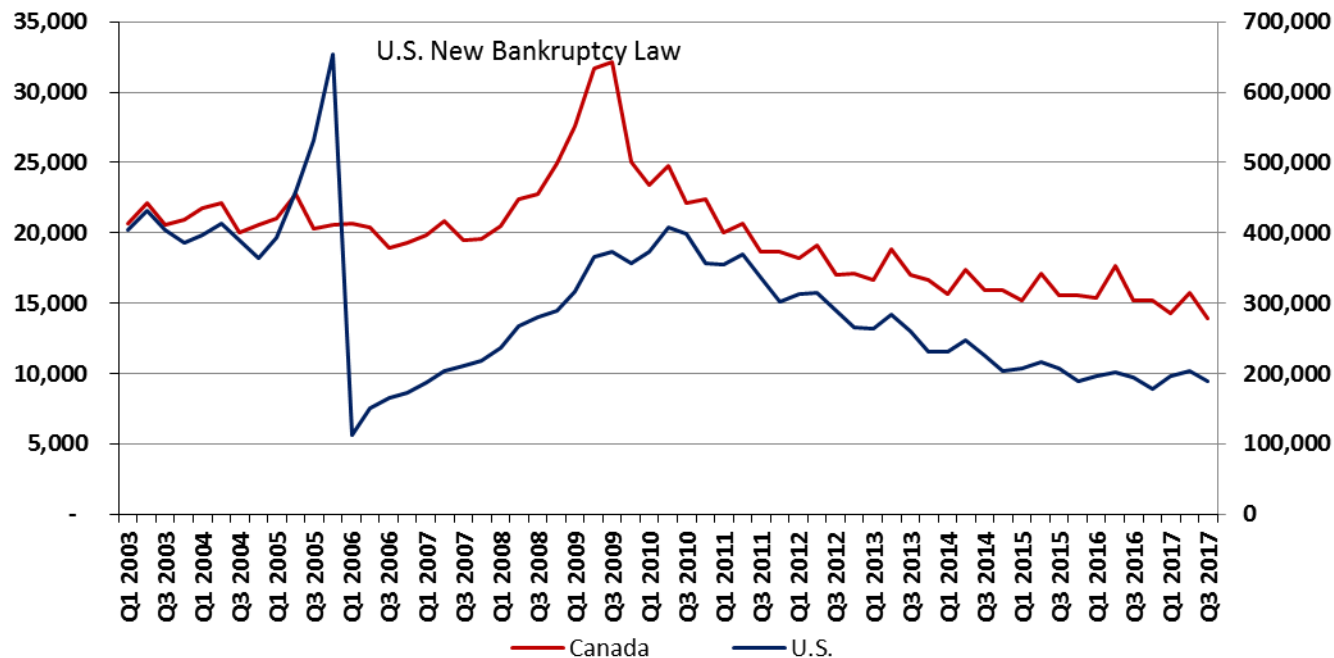
Source: DBRS, Statistics Canada, Bank of Canada, CREA.

Risk to the Financial System

Consumer bankruptcies are up

- The Canadian bankruptcies was 13,930 in Q3 2017.
- In October 2017, Canadian bankruptcies increased by 4.0% from the previous month.

Consumer Bankruptcies (Number of Filings)



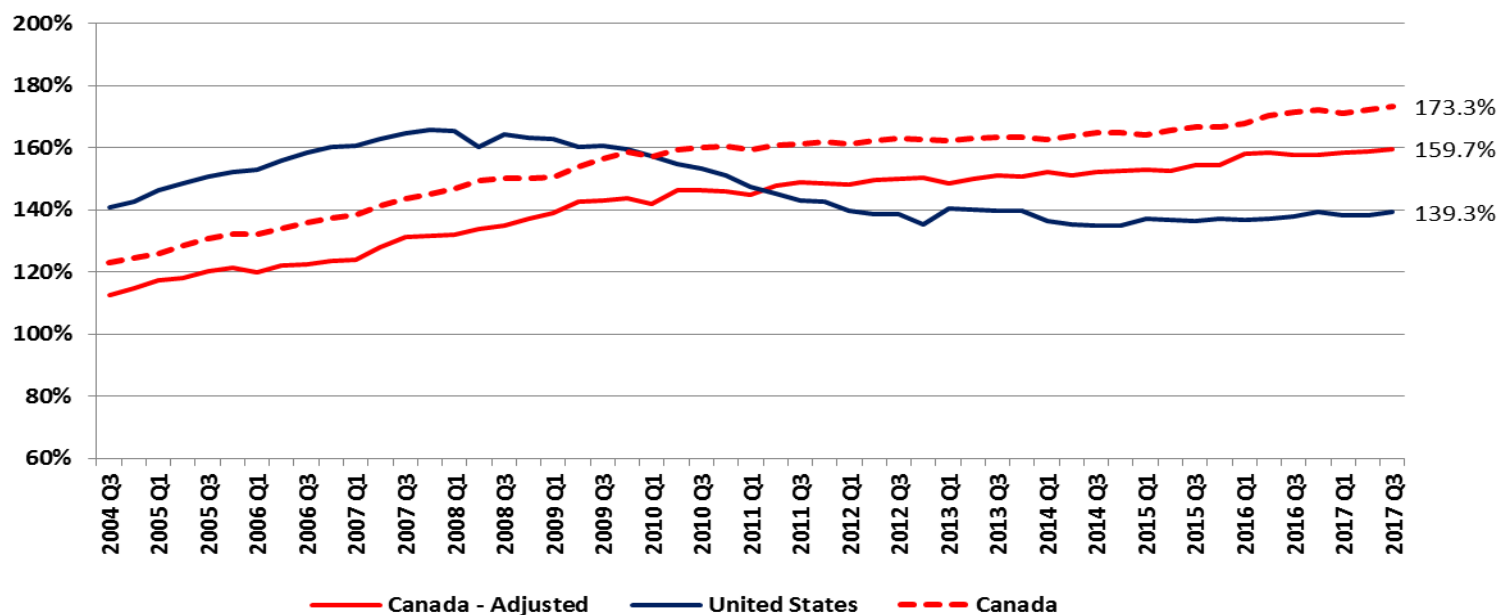
Source: American Bankruptcy Institute, Office of the Superintendent of Bankruptcy Canada

Risks to the Financial System

Household Debt Is at an All-Time High:Debt-to-PDI

- Canadian households remain highly indebted, with total debt as a percentage of personal disposable income reaching a record high of 159.7% in Q3 2017.
- Growth in consumer debt has been led by activity in the housing market and vehicle purchases.

Household Debt-to-Personal Disposable Income

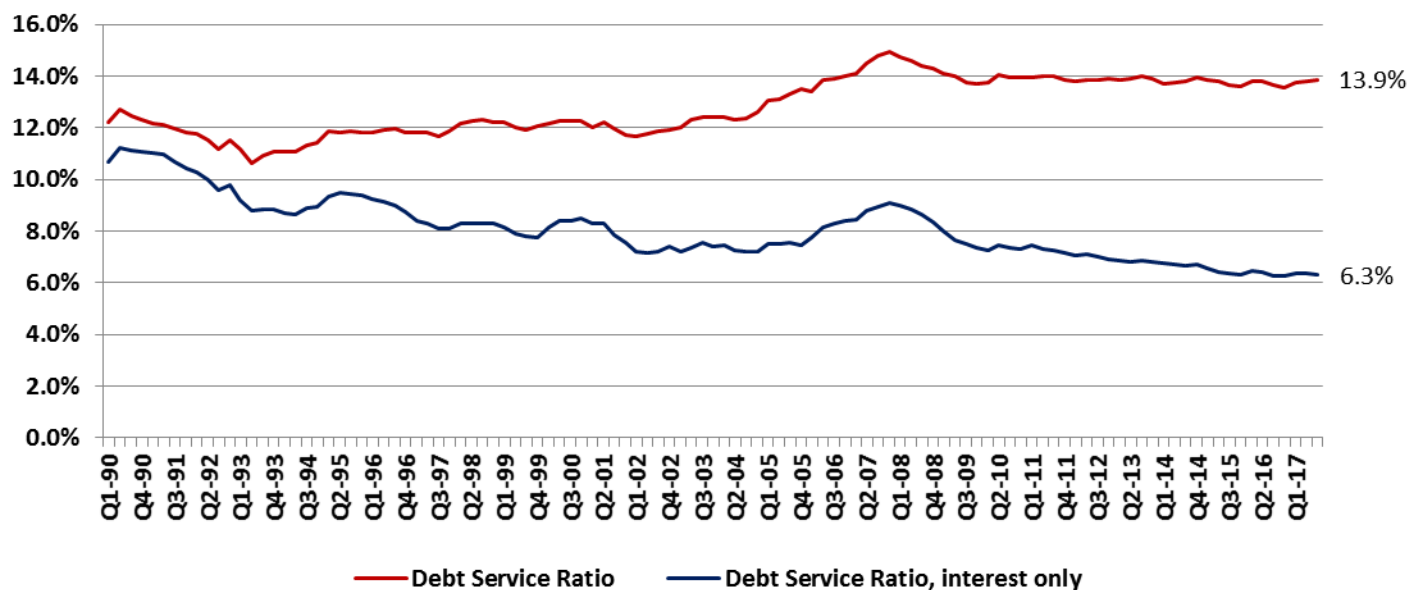


Note: In 2012, Statistics Canada released a publication explaining the adjustments necessary to Canadian and U.S. data to make them comparable

Risks to the Financial System: Low Interest Rates are Saving Us (for now):

- Over the last decades, the percentage of household disposable income allocated to service debt has gradually increased to 14.0% in Q3 2017, from a low of 10.6% in Q2 1993.
- The total debt service ratio has increased as households continue to rack up debt.
- In contrast, the IO debt service was 6.3% as of Q3 2017, the lowest level since 1990. However, the ratio is expected to increase following the recent interest rate hikes.

Household Debt Service Ratio

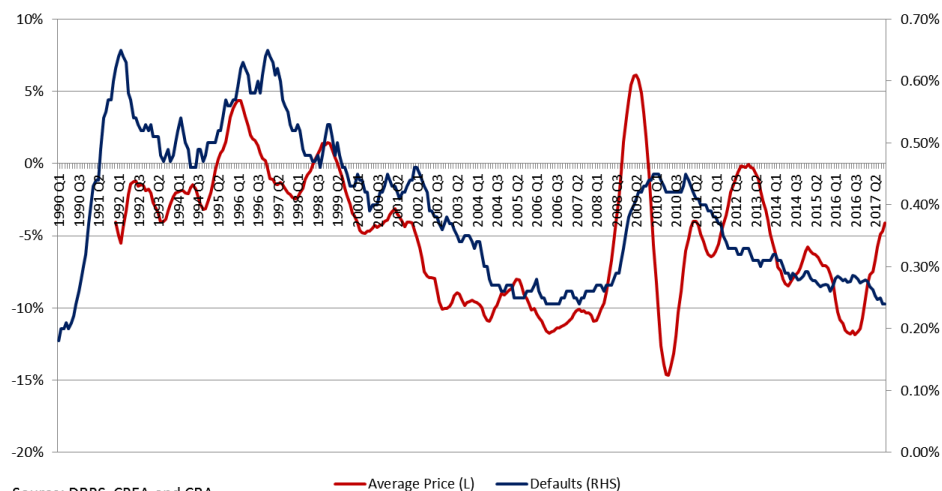


Source: Statistics Canada

Risks to the Financial System: Mortgage Defaults — Home Prices and Unemployment

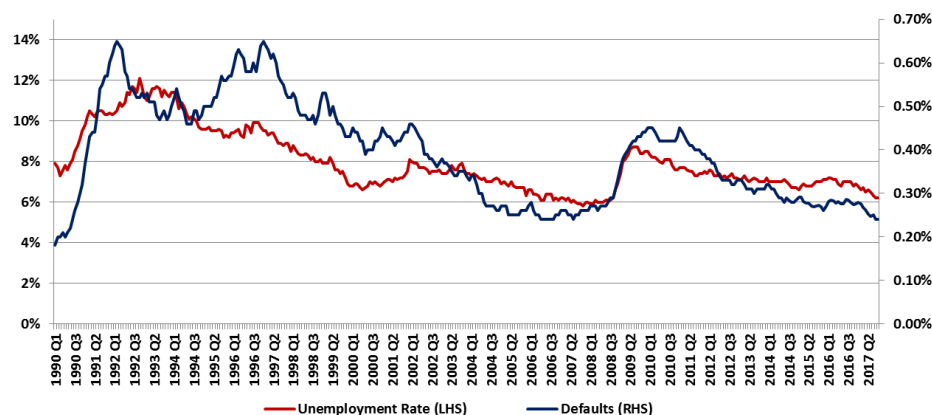
- Mortgage defaults are highly correlated to unemployment and house price decreases.
 - 77% correlation between unemployment and mortgage defaults.
 - 66% correlation between annual home price decreases and mortgage defaults, measured from 1990 to 2017.
- Theoretically, when unemployment increases, more households could face a cash flow shortage, which could lead to an increased number of mortgages in arrears.
- If a mortgage is in arrears, in an environment where home prices are going up, the household could sell the home at a price that most likely would be enough to repay the mortgage in full and maybe still keep some equity, whereas in the opposite scenario, where home prices are declining, the proceeds from the sale could be not enough to repay the mortgage, resulting in a default.
- The seasonally adjusted unemployment rate in Canada has improved to 5.9% as of November 2017, down from 6.9% in December 2016.

Average Annual House Price Loss (Gain) vs. Mortgage Defaults



Source: DBRS, CREA and CBA

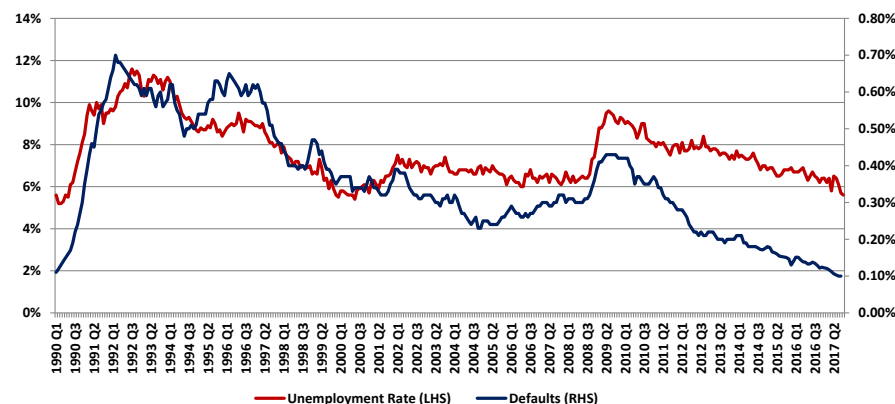
Unemployment vs. Mortgage Defaults



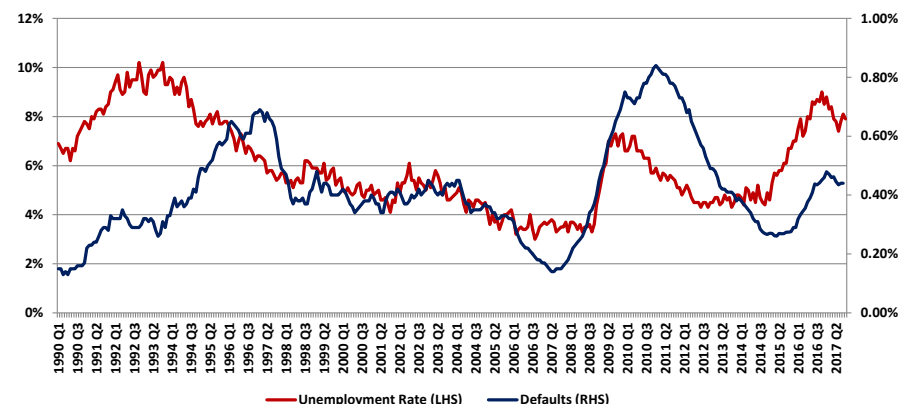
Source: DBRS, CREA and CBA

Risks to the Financial System: Mortgage Defaults — Unemployment by Province

Unemployment vs. Mortgage Defaults (Ontario)

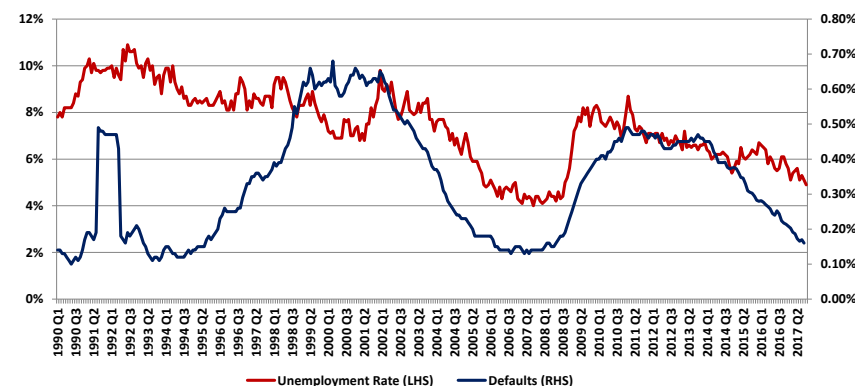


Unemployment vs. Mortgage Defaults (Alberta)



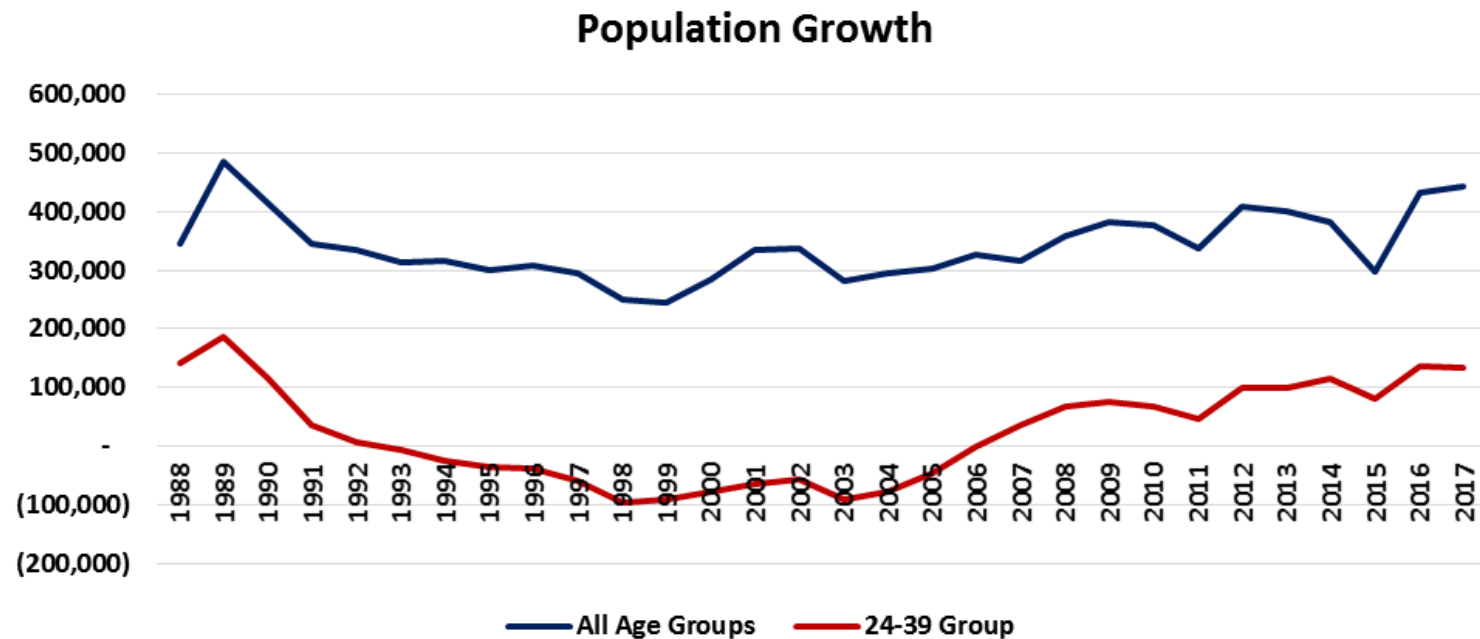
- The recent increase in unemployment in the provinces most affected by the downturn in energy prices has created differences in regional performance.
- Job creation continues to be strong in provinces like Ontario, British Columbia and Quebec, contributing to a gradual decline in the percentage of mortgages in arrears to 10 bps, 16 bps and 30 bps, respectively.
- The recent uptick in unemployment in Alberta was followed by an increase in mortgages in arrears, standing at 44 bps as of Q3 2017.

Unemployment vs. Mortgage Defaults (British Columbia)



Short Term Pain or Pop Goes the..... Who is Buying All Those Houses?

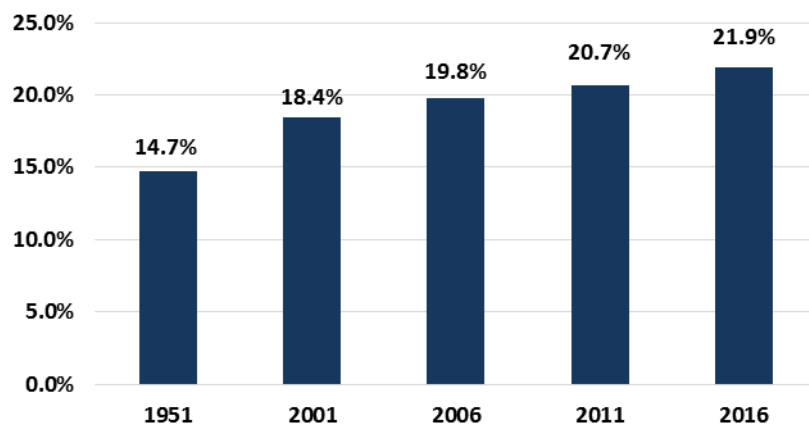
- 30% of population growth is in the 24-39 age group.



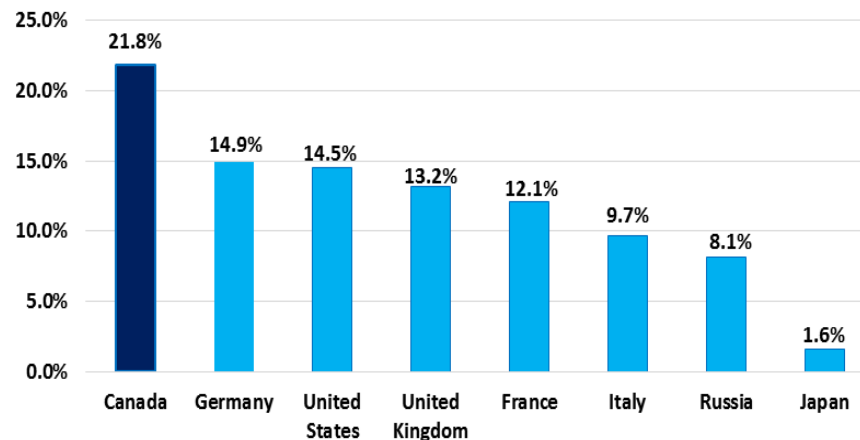
Canada is (and has always been) a Country of Immigrants

- Canada is home to 7.5 million foreign-born residents. In 2016, the immigrant population of Canada was 21.9% of total resident population.
- The federal government is aiming to bring a total of 310,000 newcomers to Canada in 2018.

Foreign Born Population in Canada (2016)

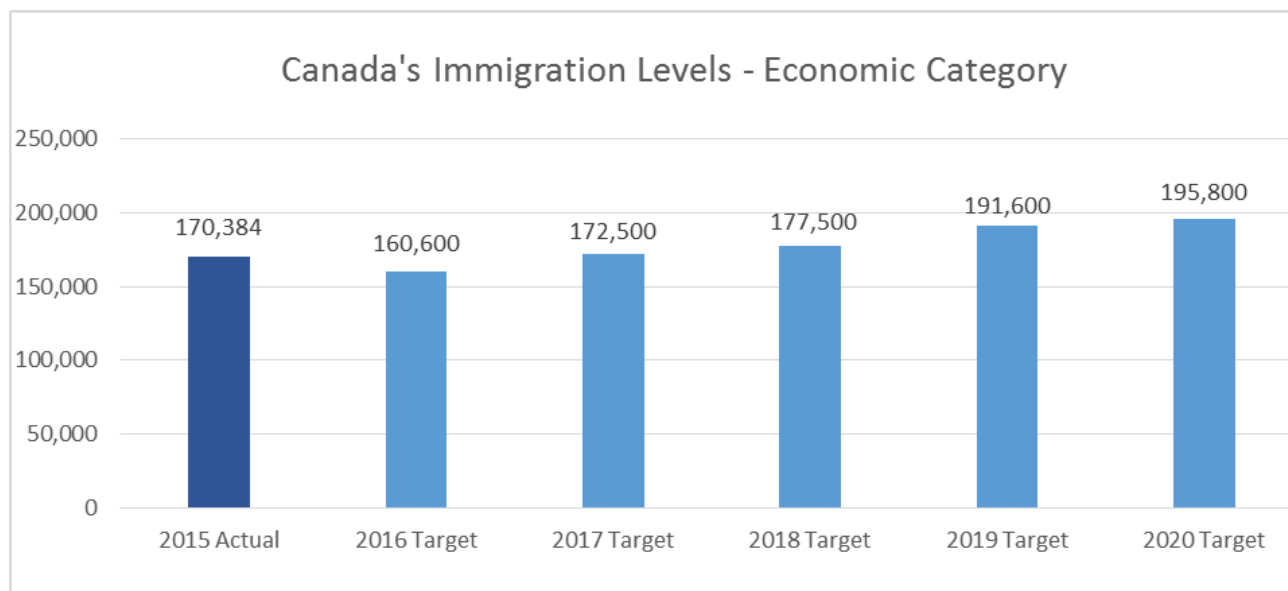


Foreign Born Population G8 Countries (2015)



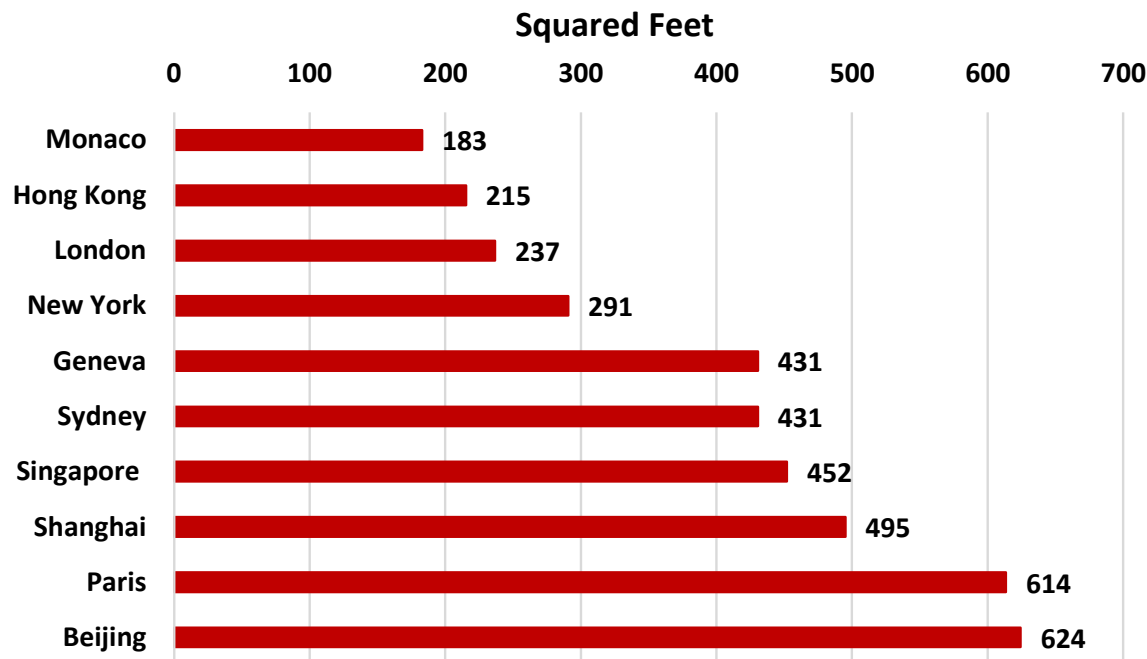
Canada is (and has always been) a Country of Immigrants

- Canada had 1,212,075 new immigrants who had permanently settled in Canada from 2011 to 2016. These recent immigrants represented 3.5% of Canada's total population in 2016.
- The majority (60.3%) of these new immigrants were admitted under the economic category → 730,811 in total from 2011 to 2016.
- Immigration Plan 2018: Canada will welcome 177,500 permanent residents through Economic category.



Short term Pain or Pop Goes the.... World Class Prime Residential Properties

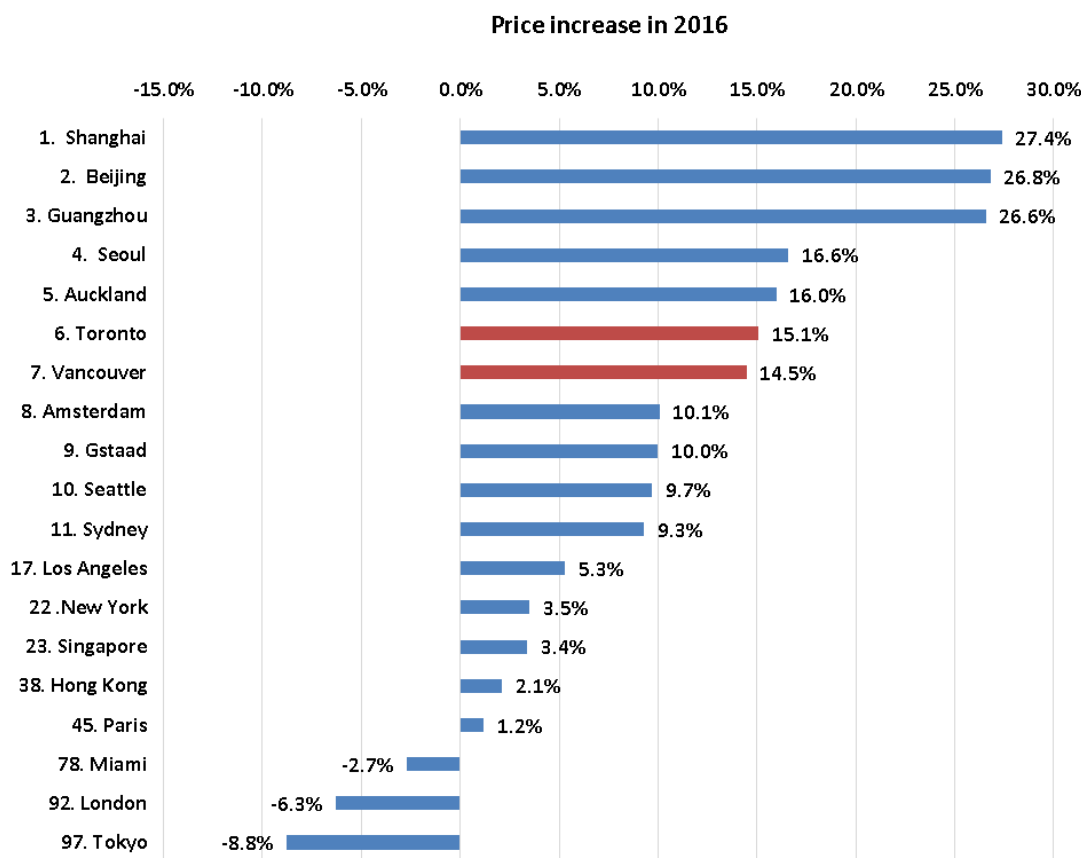
- If I had USD 1 million what could I buy?
- Well, according to the Knight Frank Wealth Report, I could buy ...



- Or perhaps in Vancouver (approximately 950 square feet) or Toronto (1,100), which are not in the top 10 yet.

Short Term Pain or Pop Goes the.....

Foreigners Like Us - Prime International Residential Index



- 2015's front-runner, Vancouver, was once again in the top 10. Prime prices ended the year 15% higher, notably lower than the 25% increase recorded in 2015. Sales volumes grew ever higher leading up to the summer, before cooling off and then retreating after BC imposed a 15% tax on foreign buyers in August.
- High demand led Toronto jump from ranking number 12 to 6, ahead of Vancouver.
- London slipped down the rankings with prime price declining by 6.3% year-on-year mainly due to the 3% property tax introduced in April 2016.
- New York had its challenges in 2016. The strong US dollar negated some overseas interest and the delivery of a large number of new luxury projects helped inflate supply. But while volumes slowed, prices proved resilient.

Public Policy on Housing 2018: Did we KILL it Yet?

Macro prudential policies by the federal and provincial governments to address concerns over housing affordability and stability, targeting the hot real estate markets of GVA and GTA:

- New standard approach for the regulatory capital requirement for mortgage insurance risk (January 1, 2017). This change led the Canada Mortgage and Housing Corporation (CMHC) to increase its homeowner mortgage loan insurance premiums (March 17, 2017).
- The Ontario government increased the land transfer tax rebate for first-time home buyers to \$4,000 (January 1, 2017).
- The federal government launched a consultation on lender risk sharing for government-backed insured mortgages that ended on February 28, 2017. The purpose of the consultation was to decide whether to require mortgage lenders to assume a portion of losses on insured mortgages that default.
- On January 17, 2018, the Bank of Canada raised the interest rate by another quarter of a percentage point, up to 1.25%.
- Most economists agree that more interest rate increases will occur in 2018

Final Thoughts ...

- Financial Stability is at risk because:
 - The overheated housing sector
 - The high level of Canadian household indebtedness
 - The increased number of consumers filing for insolvency
- Consumers will remain stretched financially and sensitive to:
 - a continued rise in interest rates
 - a cash flow shock (job loss, or the three Ds: death, disability or divorce)
 - more government “help”
- Measures to cool down the housing market are a step in the right direction, but the government may have helped too much.
- Good news is that national employment picture remains stable, and interest rates will remain low in the near term.
- Hoping that fiscal policy, job growth and GDP growth can keep Canada ahead of the G7 pack but then again, what about NAFTA? U.S. tax policies? immigration policies? protectionist policies? War with Korea? Simply put, What about the US?



Thank You

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