

MARKET INSIGHTS

THE CANADIAN SOURCE FOR HOUSING INFORMATION | Q4 2022



We are pleased to share with you the 14th edition of the Teranet Market Insight Report. This report delivers a comprehensive analysis and new insights into the real estate market in Ontario derived through our data analytics team's analysis of sales and mortgage registration activity in the Ontario Land Registry.

In late 2020, we analyzed a number of Ontario housing and mortgage metrics to decipher trends in the early part of the Covid-19 pandemic. As we gradually exit the pandemic and return to "normal", we will wrap up 2022 by reviewing trends and behaviours pre-, during, and post-pandemic. In this report, the pre-pandemic period refers to that prior to March 2020. Post-pandemic refers to April 2022, when most pandemic measures were lifted in Ontario, up to December 2022, the last full month of results prior to the publication of this report.



Transfer Volumes and Average Value

It has been widely reported that transfer volumes reached unprecedented heights during the pandemic, which is reflected in Teranet's data. After the initial market shock from the onset of the pandemic wore off, volumes peaked in late 2020 and summer of 2021 (Figure 1). This trend continued well into 2022 before dropping off in the third quarter, likely realizing the effects of the interest rate hikes that began in March 2022. As of December 2022, the year-over-year declining trend seems to have plateaued, as six more interest rate increases were announced since the first in March.

After prolonged periods of increasing average transfer value, a declining trend is finally observed beginning in July 2022 into the end of 2022 (Figure 2). The average transfer value has declined 23% from the peak of \$900,000 in June 2022 to \$736,000 in December 2022.

These indicators all confirm that the slowdown in the housing market has commenced as widely cited and will likely continue into the new year.

Figure 1

Quarterly transfer volume (top) and volume year over year change (bottom) Q1 2019 to Q4 2022. Grey lines denote beginning and end of pandemic; red lines denote the seven interest rate hikes up to December 2022.

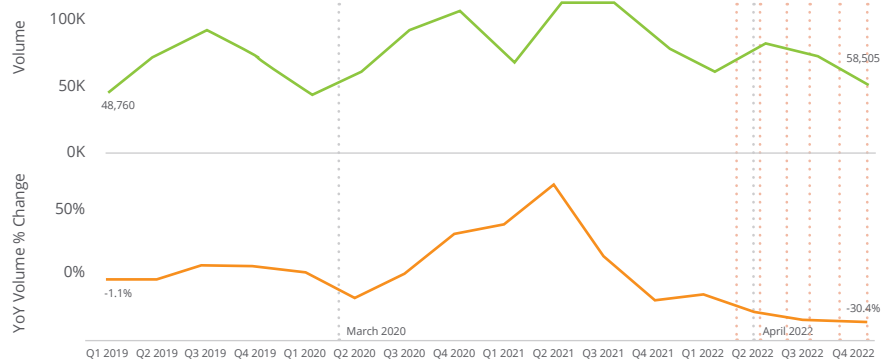
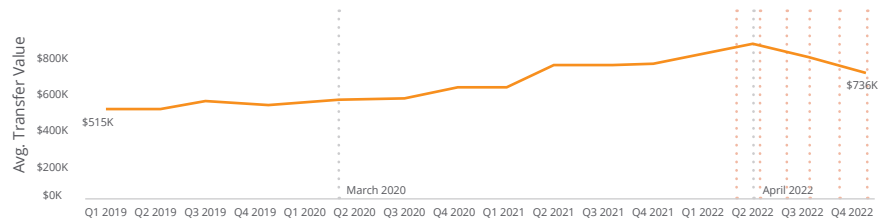


Figure 2

Average quarterly transfer value Q1 2019 to Q4 2022



Trends by Buyer Classification

While general market trends are helpful, dissecting data down to the types of buyer may provide additional insights into the real estate market. As we explore trends by buyer segment, please note Teranet classifies buyers into the following categories:

Movers: Buyers that moved from one property in Ontario to another. They have sold their sole, existing property and purchased another property within a period of time.

Multi-property owners: Property purchases by buyers who, at the time of the purchase, also own other properties in Ontario. The properties purchased by this group of buyers could represent any combination of principal residence, investment property or recreation property.

First-time homebuyers: Property purchases by buyers who claimed the Ontario land transfer tax exemption for first-time homebuyers. To qualify for this exemption, the buyer must not have purchased property anywhere in the world.

Life event: Transfer of ownership between related parties. These transactions could be due to marriage, divorce, or transfer between generations for nominal value.

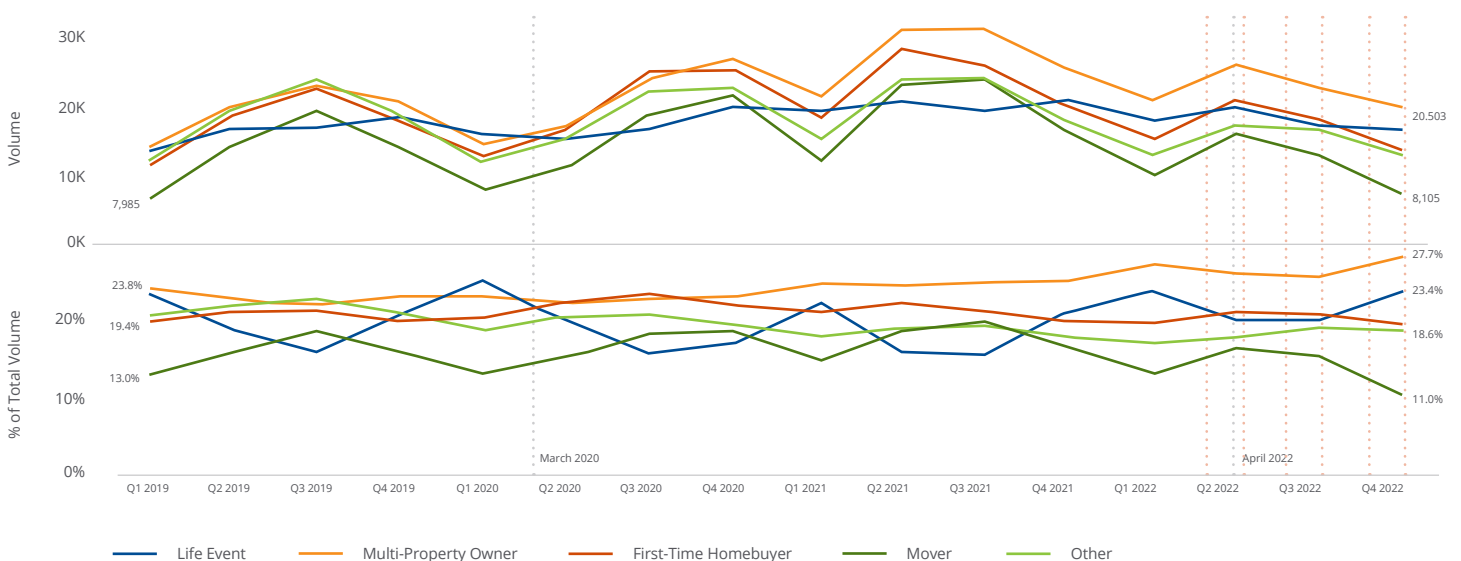
Other: All other buyers. This could include buyers from outside of Ontario or Canada or re-entry into the property market after an extended absence.

In the year prior to the pandemic, home purchase volumes were fairly even between the first-time homebuyers, multi-property owners and other categories (Figure 3). As expected, life event transactions are relatively stable and not as affected by market conditions. Lastly, mover activities have consistently been the smallest category of buyers.

These trends evolved during and in the post-pandemic period. During the fall and winter of 2020, activities in all categories peaked as Ontarians sought to adjust their living arrangements in response to the immense change brought on by quarantine and remote work. A second period of adjustments occurred in the summer of 2021 as the pandemic wore on and Ontarians continued to adjust their living arrangements. However, during this period of adjustments, it becomes apparent that multi-property owners have started to pull ahead of other buyer groups in terms of purchase volumes, and have continued to do so into Q4 2022 where they account for 27.7% of residential property purchases. Property purchases by first-time homebuyers and movers continue their decline as they remain on the sidelines, likely due to the continued increase in both home prices and interest rates.

Figure 3

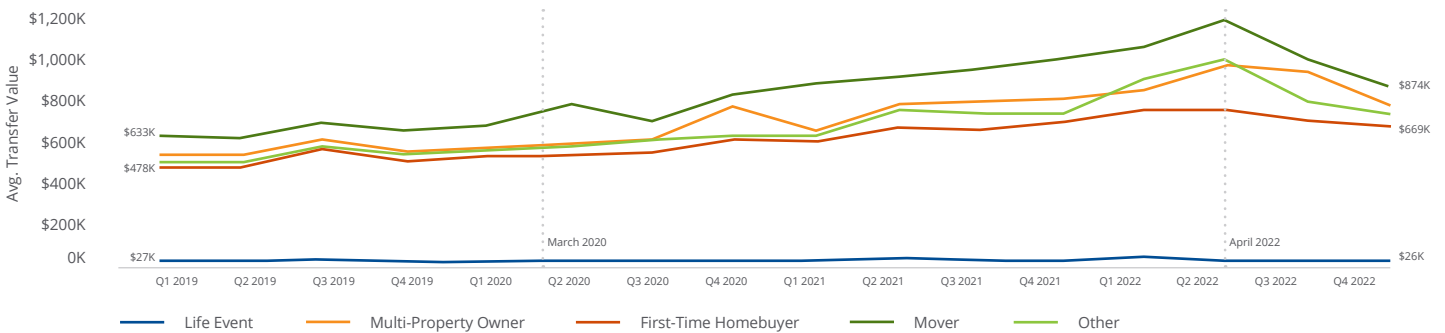
Quarterly transfer volume (top) and percentage of total volume (bottom) by buyer classification, Q1 2019 to Q4 2022



When we break down the average transfer value by buyer segment (Figure 4), we see that movers consistently pay the most for their purchases, which is consistent with expectations, given this is their sole property and likely principal residence. The gap in average transfer value between movers and first-time homebuyers continues to widen from approximately \$140,000 in 2019 to \$430,000 at the peak in Q2 2022, although it has come down in Q4 2022 to \$205,000.

Figure 4

Quarterly average transfer value by buyer classification, Q1 2019 to Q4 2022



Condo vs. Non-Condo Purchases

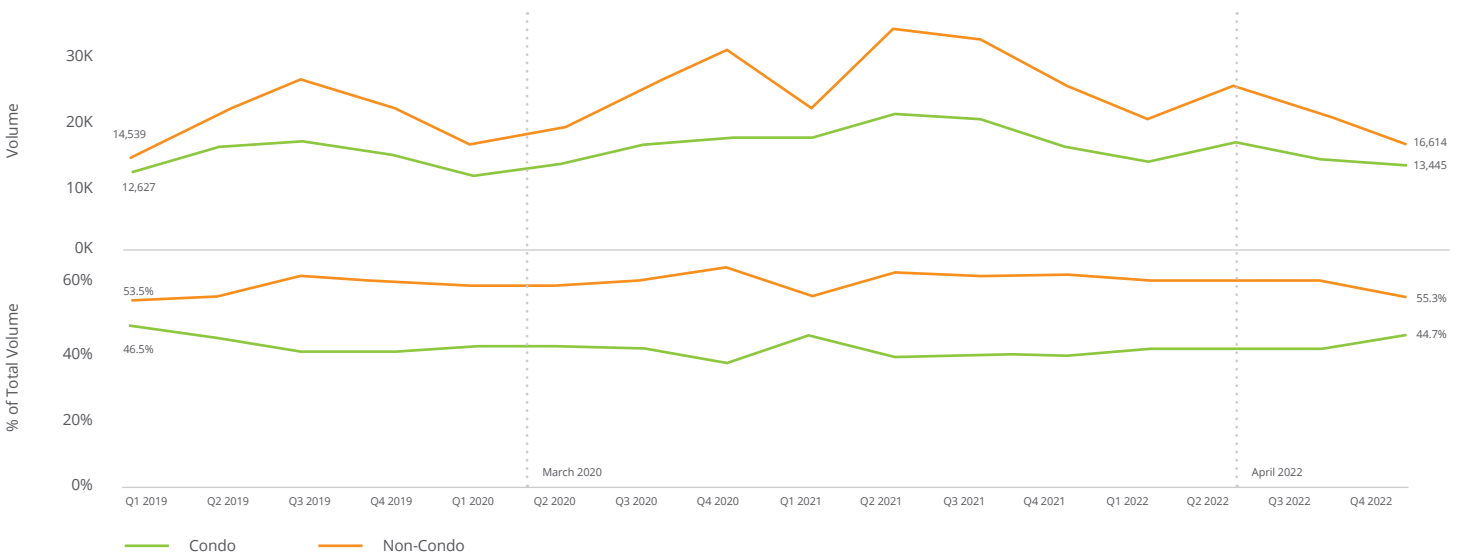
It was widely reported during the pandemic that as Ontarians sought to expand their living spaces, non-condo properties were preferred over condos in their housing purchases.

In reviewing overall Ontario transfer data from 2019 up to December 2022, the split between condo versus non-condo purchases has been fairly stable over time at 25% and 75%, respectively, with a marginal increase (about 3%-5%) in favour of non-condos during the pandemic.

While the trends for GTA property purchases have fluctuated over time, they have also been relatively consistent with a split of 50% to 60% non-condo and 40% to 50% condo. However, the non-condo properties proportion trended at the high end of the range, at times breaching 60%, during the peaks of pandemic property purchases (Figure 5).

Figure 5

Quarterly GTA transfer volume (top) and percentage of total volume (bottom), by condo and non-condo properties, Q1 2019 to Q4 2022

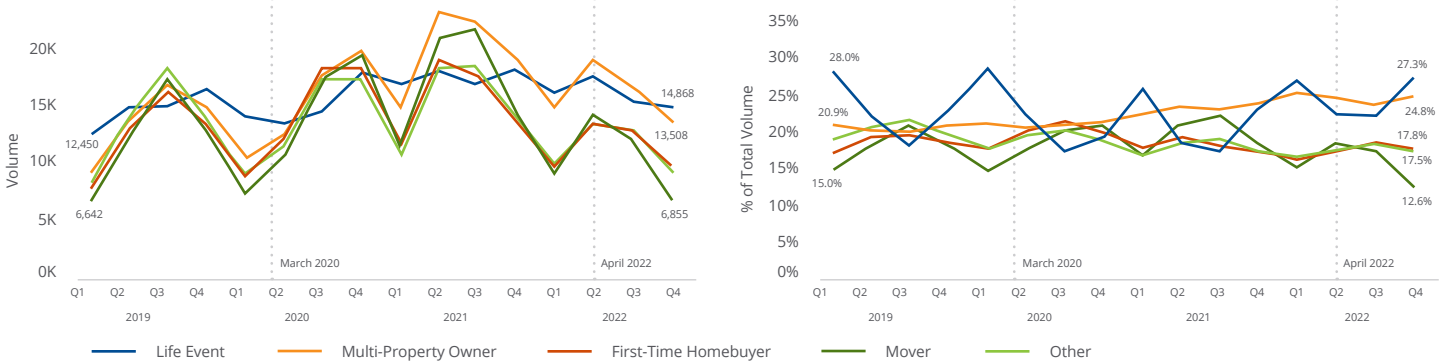


Non-Condo Properties by Buyer Segment

When observing trends in the purchase of non-condo properties in Ontario (Figure 6), we can see that in 2019, all buyer groups, except the life event category, have similar volumes. During the two peak purchasing periods of late 2020 and summer of 2021, we can see that multi-property owners and movers increased the volume of purchases compared to the other buyer segments. However, as prices continue to rise and interest rate increases commence, the movers segment significantly reduce their purchases, to only representing 13% of market volumes by the end of 2022. In addition, the multi-property owner segment did not decrease their activity to the same degree, and in fact carried on remaining the biggest purchaser group at 25% of overall market transactions by the end of 2022.

Figure 6

Quarterly Ontario transfer volume (left) and percentage of total volume (right) of non-condo properties by buyer classification, Q1 2019 to Q4 2022

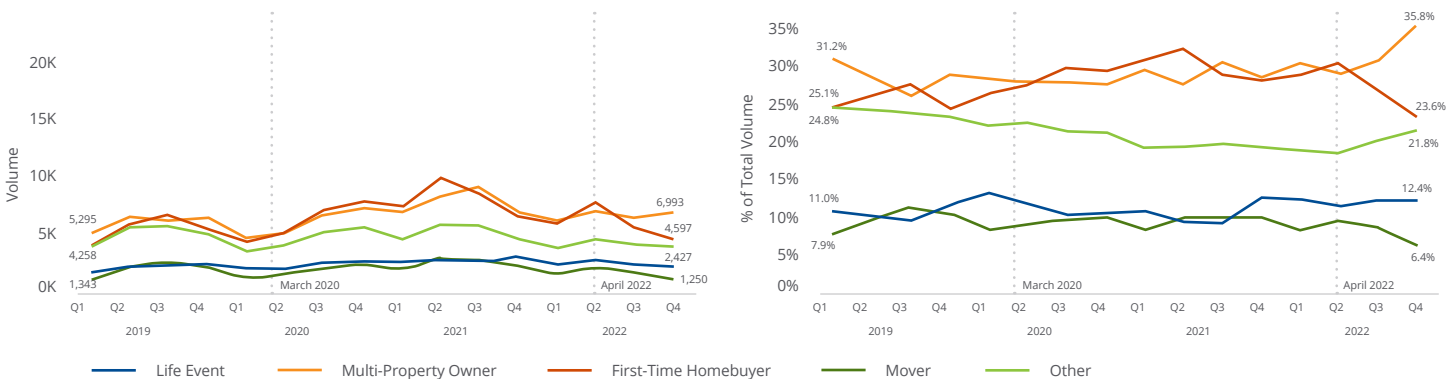


Condo Properties by Buyer Segment

In contrast, condo property purchases in Ontario are routinely dominated by multi-property owners, first-time homebuyers, and other buyers (Figure 7). Since the other buyer segment likely comprises of buyers new to Canada or Ontario, the drop off in their volumes during the pandemic is reasonable and expected. Both multi-property owners and first-time homebuyers increased their condo purchases early in the pandemic, followed by a sharper increase in summer of 2021. While both groups' condo purchases declined as interest rates started to rise, first-time homebuyers experienced a sharper decline than multi-property owners, who, in Q4 2022, represented 36% of condo purchases in Ontario.

Figure 7

Quarterly Ontario transfer volume (left) and percentage of total volume (right) of condo properties by buyer classification, Q1 2019 to Q4 2022

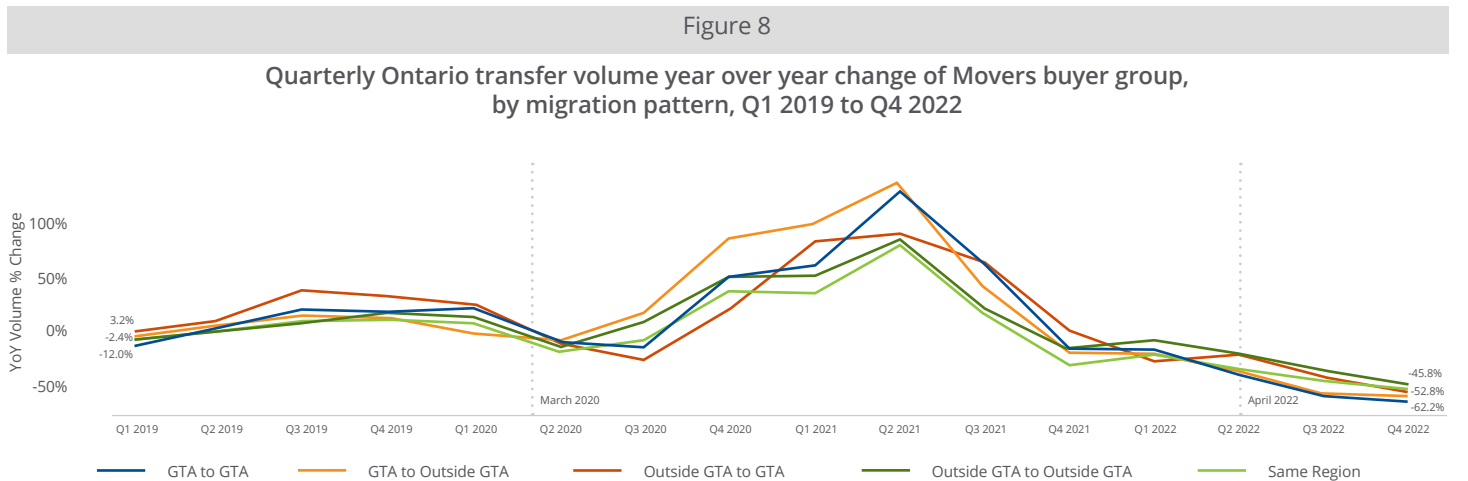


In summary, during the pandemic there was an observable but marginal increase in all buyer segments' preferences for non-condo properties in Ontario, in particular the GTA, likely born out of the desire for more space. Condo property purchases gained some momentum later in the pandemic amongst first-time homebuyers (Figure 6) and multi-property owners, likely fueled by soaring housing prices and non-condo properties becoming less affordable.

Buyer Migration

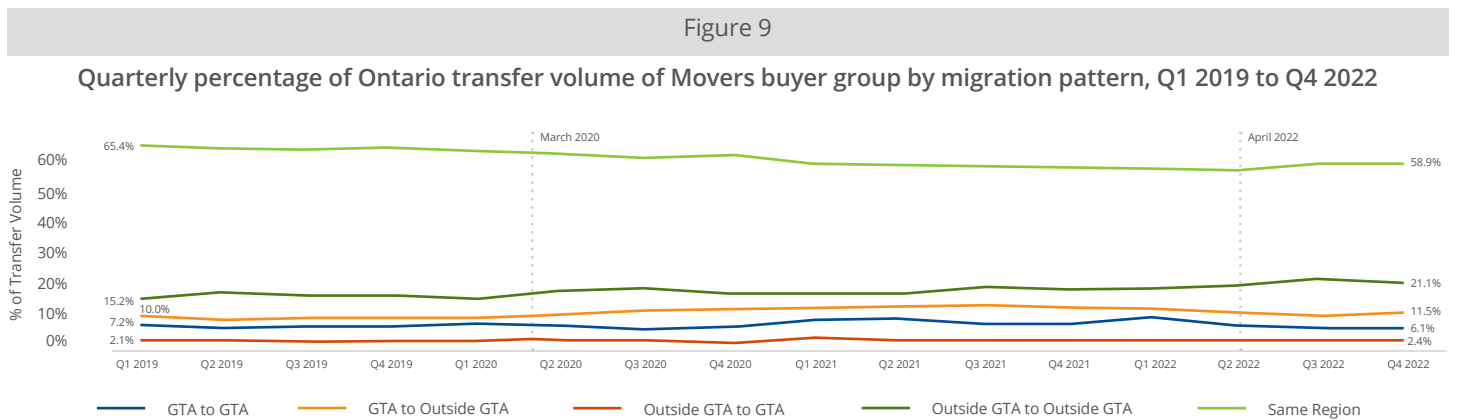
The exodus of Ontarians from urban areas to suburban and rural areas during the pandemic in search of space and affordability, enabled by remote work, has also been widely reported in the media. In this section of the report, we will quantify and validate these anecdotal accounts.

Amongst the movers segment, there was a significant year-over-year increase in those moving from the GTA to outside of the GTA starting from Q2 2020 through to the end of 2021, peaking at 135% in Q2 2021 (Figure 8). This was in line with increases seen in all other migration patterns as there was a general increase in real estate transactions across the province.



More telling is to look at the proportion of Ontario movers that moved from the GTA to outside of the GTA (Figure 9). In general, this group of movers is relatively consistent at 10% pre- and post-pandemic, although there was a marginal lift of 2% during the pandemic, peaking at over 13% in Q3 2021. The dominant category of movers remain those who chose to move within their immediate regions¹ at a stable 60%.

In addition, there is no data to suggest that, with the end of the pandemic and gradual return to work, buyers are moving back into the GTA in droves, as it remains the smallest group of movers at 2%.



¹ Region is defined by Ontario Land Registry Offices

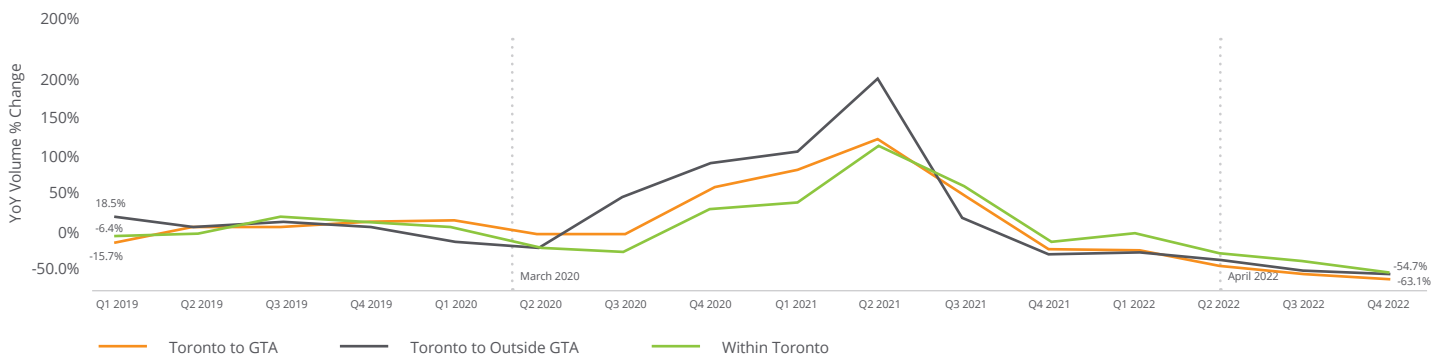
Buyer Migration Regional Focus: Toronto

Focusing on Toronto, we see an increase in those choosing to move from Toronto to other parts of the GTA and outside of the GTA during the pandemic.

As expected, while year-over-year volumes were up during the pandemic, the group of movers who moved from Toronto to outside of the GTA saw a more significant increase than other mover groups, peaking at an almost 200% increase in Q2 2021 (Figure 10).

Figure 10

Quarterly year over year change in movers transfer volume originating from Toronto, by migration pattern, Q1 2019 to Q4 2022

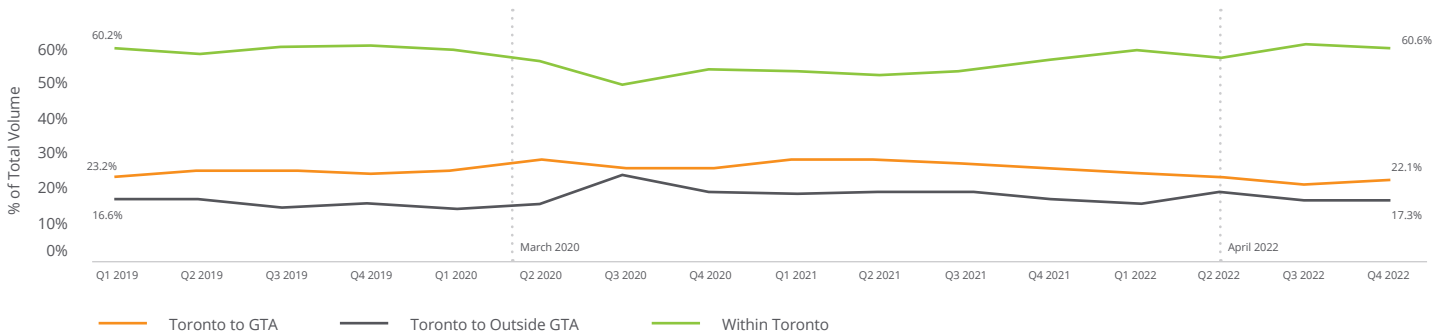


This uptick in those moving out of Toronto during the pandemic is also discernible by looking at the proportion of overall mover activity that originates in the city.

The greatest proportion of movers originating from Toronto still chose to remain in Toronto, at 50% to 60% (Figure 11). At the beginning of the pandemic, there was a sizable increase in the proportion of buyers moving from Toronto to outside of the GTA, from 15% pre-pandemic to almost 24% in Q3 2020, before dropping down to approximately 18% by the end of the pandemic. There was also an observable but smaller increase in the proportion of buyers opting to move from Toronto to other parts of the GTA during the pandemic.

Figure 11

Quarterly percentage of Movers transfer volume originating from Toronto, by migration pattern, Q1 2019 to Q4 2022

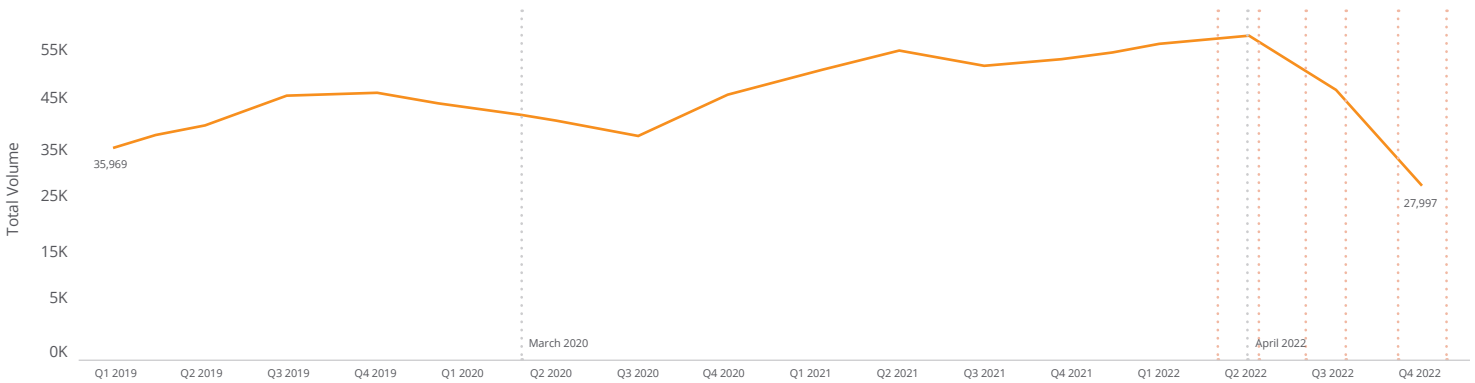


Refinancing Activities

After the initial shock of the pandemic set in and refinancing activities took a dip, they steadily climbed in volume as Ontarians saw their home values rise significantly and interest rate remained low (Figure 12). However, since the first of the interest rate hikes in March 2022, volumes have drastically dropped off in the last six months, with Q4 2022 showing the lowest quarterly refinance volume in the past ten years. We will be monitoring this trend and anticipate some increase in activity due to trigger rates coming into effect.

Figure 12

Quarterly Ontario mortgage refinancing volumes, Q1 2019 to Q4 2022



Conclusion

Ontario homeowners, both existing and prospective, had and continue to experience a rollercoaster market rocked by the pandemic and economic conditions. With the past two and a half years behind us, we are now able to quantify and validate some key market conditions during the pandemic that may have lasting effects. Multi-property owners have become the dominant purchasing group in Ontario, in both condo and non-condo properties. First-time homebuyers were affected by escalating home prices and interest rates, which likely pushed them to condo properties as the pandemic wore on. Although movers represent the smallest purchasing segment, they spent the most on their purchases, outpacing all other groups in an increasing rate. Lastly, while there was some evidence to suggest a slight increase in Ontarians moving from urban to suburban or rural settings during the pandemic, they remain a small segment of the overall market. The reverse has not been observed to have occurred despite the lifting of pandemic restrictions and return-to-office requirements.

As we continue to emerge from the pandemic and economic conditions evolve, we will monitor the relevant indicators and bring forth new insights as they arise.



If you need more information about the data presented in this report, the Teranet Data Science Lab can help you dig deeper.

Our Data Analytics team will work closely with you to answer your questions with insights from our proprietary database. Contact a Teranet Account Manager to learn more.

CONTACTS

Teranet Account Managers

Karen.Williams@teranet.ca
Grant.Anderson@teranet.ca
Laura.Weise@teranet.ca
James.Stanley@teranet.ca

Teranet Solutions Inquiries

Kevin Pavey

Vice President, Financial Solutions Sales
Kevin.Pavey@teranet.ca

Lovish Gupta

Director, Real Estate
Lovish.Gupta@teranet.ca

Derek Tinney

Product Director, Data Products
Derek.Tinney@teranet.ca

Media Inquiries

Emily Boyce

Director, Marketing and Communications
Emily.Boyce@teranet.ca

Property Solutions

Chris.Butler@teranet.ca



1.855.787.8439 | info@teranet.ca | teranet.ca

