

MARKET INSIGHTS

THE CANADIAN SOURCE FOR HOUSING INFORMATION | November 2020

We are pleased to share with you the eighth edition of the Teranet Market Insight Report. This report delivers a comprehensive analysis and new insights on the real estate market in Ontario derived through our data scientist's analysis of mortgage activity in the Ontario land registry.

In this edition of the Teranet Market Insight Report we will focus on the impact of COVID-19 on the mortgage market in Ontario. This report will explore trends related to mortgage registrations and sales volumes, the changing preferences of non-first-time homebuyers, whether the work from home climate is affecting buyer activity, and much more. The report also features commentary from **Benjamin Tal**, Managing Director – Deputy Chief Economist of CIBC World Markets Inc., **Hali Noble**, Director and SVP Residential Mortgage Investments & Broker Relations of Fisgard Asset Management Corporation, and **Dr. Darrell Bricker**, CEO of Ipsos Public Affairs.

Monthly Sales and Average Sales Prices

The coronavirus (COVID-19) pandemic has steered all of our lives towards a “new normal” of social distancing and working remotely. On March 17, 2020, Ontario declared a state of emergency, which ordered the closure of a number of facilities and businesses amid an increase in virus cases. During the lockdown period that took place over the following months, common real estate activities such as home listings and showings had to adapt.

As we can see in Figure 1, the monthly registered residential sales value has steadily increased from \$7.83 billion in February 2020 to \$17.34 billion in August 2020. The data also shows us that over the course of 2020 the majority of monthly sales are coming from non-first-time homebuyers, in August this is particularly evident as over 85% of the monthly sales value originates from this buyer segment. Despite the increase seen in total dollar value from February to August, activity in the housing market amongst both buyer segments has dropped compared to the same time last year. The line in Figure 1 represents the year-over-year change rate with respect to monthly residential sales values and we can see there is a significant decline in the change rate from May to July this year.



We tracked the average trend in terms of year-over-year (YoY) volume change to establish a baseline for comparison with what we see in 2020. Not surprisingly, there was a complete reversal of the trend in 2020. Typically we see an upward trend through spring and early summer, but now we see that measure drop by 11% and higher in May to August of 2020. Sales volume shows increases month by month and an uplift of the total value in August, which indicates that perhaps there has been the establishment of a “new normal” in this area of the economy.

We also looked at the standard representation of first-time home buyers in the total market and it is interesting to note that this buyer segment took on a noticeable increase in their share of the market during a period where the trend was most steeply reversed. This may be due to consistently low interest rates or the ability to seek help from non-first-time home buyers who were not financially affected by the crisis.

“The nature of the recovery we are starting to see in the market is asymmetrical. Many of the jobs that were lost since March were lost amongst low-paying occupations. Mid and high income Canadians were not touched by this crisis, which means that a very large segment of households did not feel the impact and therefore were in a position to take advantage of low interest rates and purchase homes.”

– Benjamin Tal, CIBC

FIGURE 1: Total Registered Residential Property Sales Value (Bar) and YoY Change Rate (Line) (Jan - Aug)

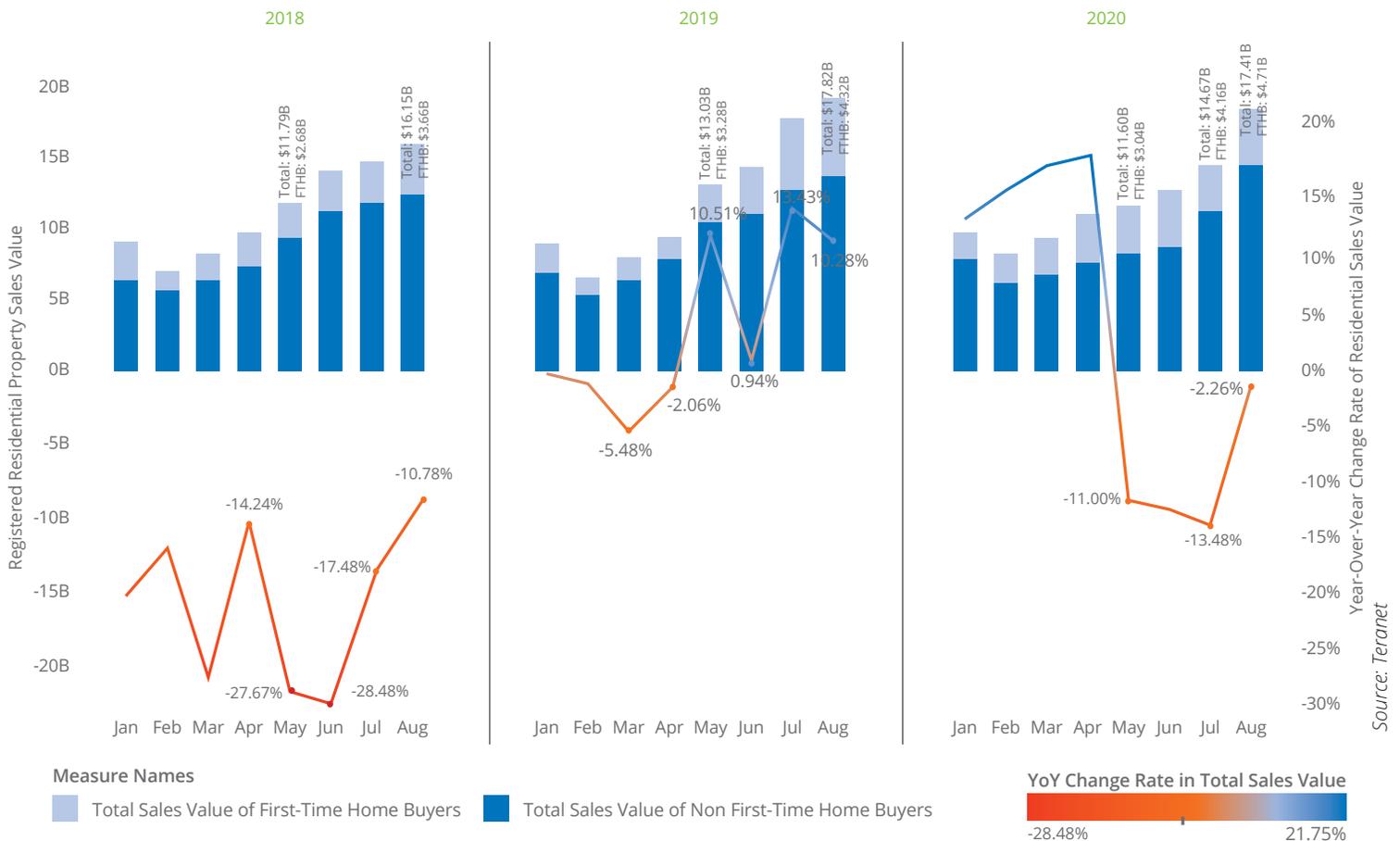


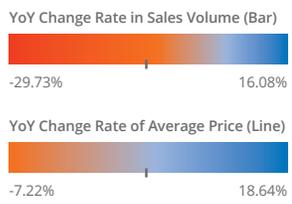
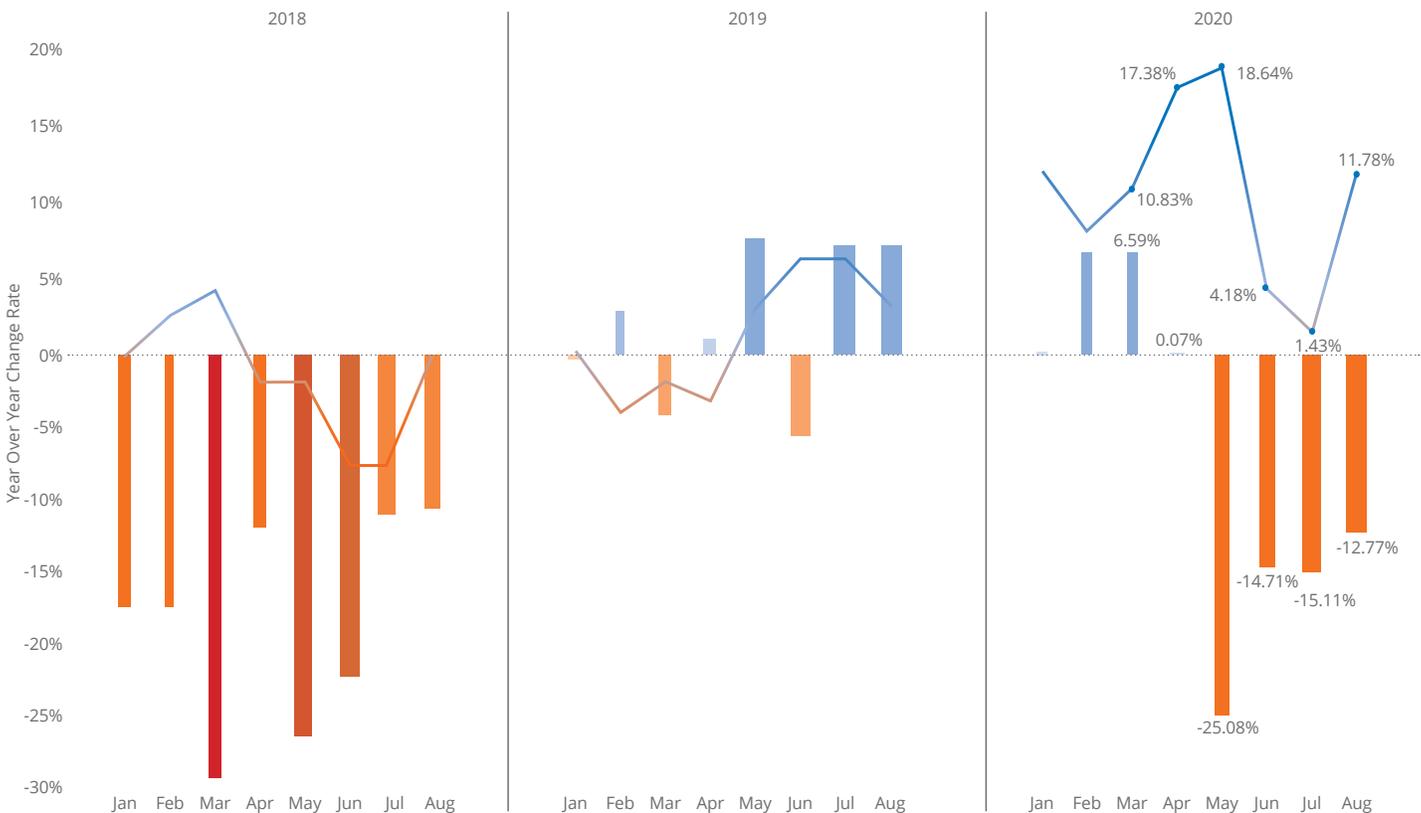
Figure 2 shows us activity in relation to the average sales price of registered residential properties. The line in Figure 2 shows us that the average sales price has been growing in 2020 compared to 2019. May 2020, for example, saw the average sales prices in Ontario soar to \$556,156 which was an 18.64% jump compared to the same period last year (please refer to the referential chart at the end of this report). After May, while the year-over-year growth rate slows down, the overall average sales price continues to trends upward, reaching

a year-over-year growth rate of 11.78% in August, which represents an average sales price of \$569,635. It is interesting to note that while sales prices have increased, sales volumes have experienced some significant lows. While, May 2020 saw an increase in the average sales price, it also experienced the worst year-over-year change rate on residential sales volume since June 2019, with a decline of 25.08% representing 20,659 monthly sales.

"We can see a trend of people trying to get into larger units. If you look at the home price inflation in Canada, 50% of it is because people are moving to larger and therefore more expensive units. We are seeing more activity in more expensive units and that is why prices are rising."

– Benjamin Tal, CIBC

FIGURE 2: YoY Change Rate in Average Registered Residential Property Sales Price (Line) and Sales Volume (Bar)



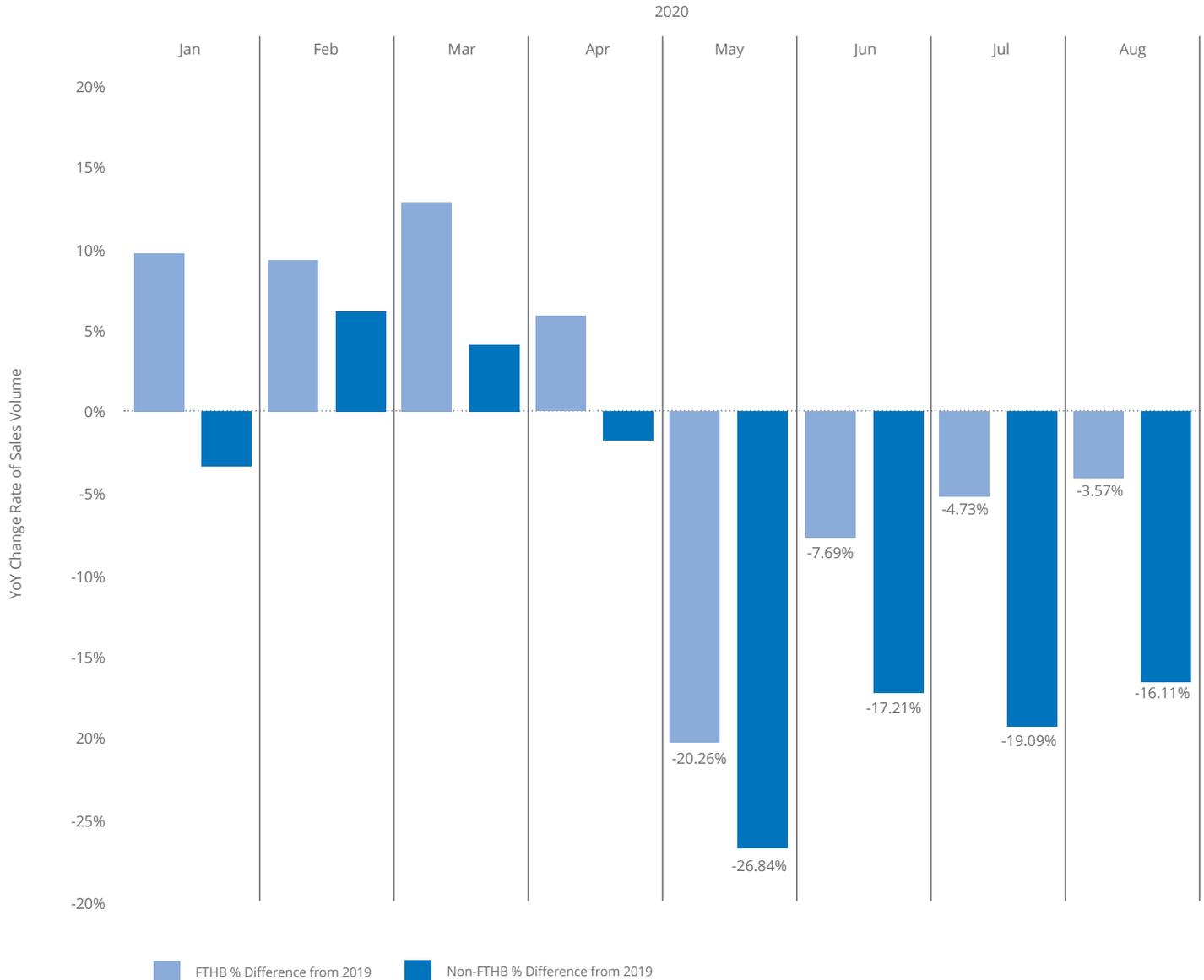
Source: Teranet

First-Time Home Buyer Activity

When we look at sales activity, depicted in Figure 3, in relation to first-time and non-first-time home buyers we can see some varying trends. The first-time home buyer segment accounts for about one quarter of total monthly sales value

and consistently had year-over-year increases in volume from January to April when compared to 2019. Sales volumes were down amongst both buyer groups from May to August.

FIGURE 3: YoY Change Rate of Sales Volume by Home Owner Segment



Source: Teranet

Condo vs. Non-Condo Property Volumes

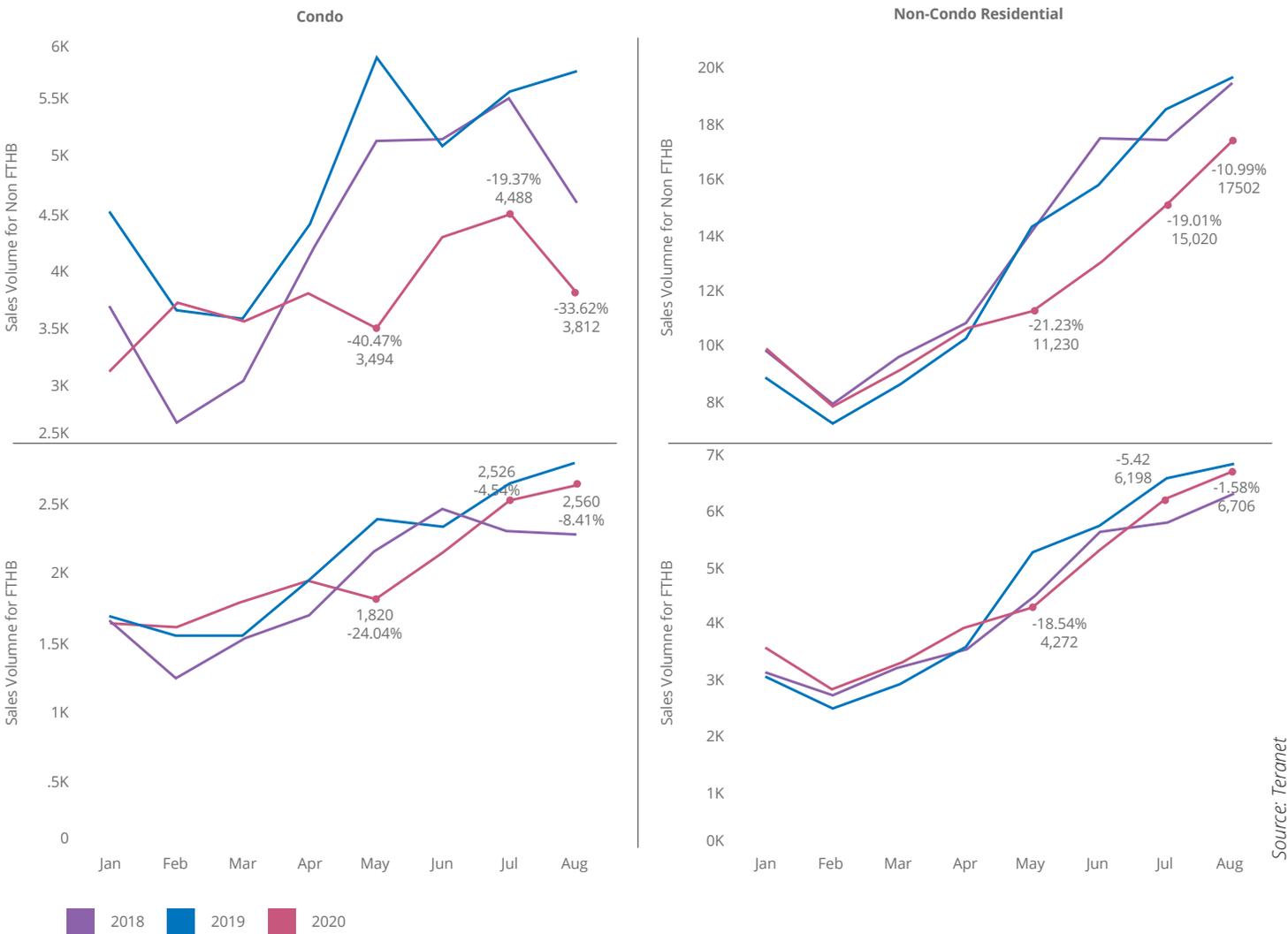
Figure 4 depicts the sales volumes for non-first-time and first-time home buyers in the condo and non-condo property spaces in comparison to 2019 and 2018 volumes. In 2020, non-first-time homebuyers have gravitated towards non-condo properties over condos and purchased significantly fewer condos this summer compared to the volumes seen in the summer months of 2019 and 2018. Overall, monthly residential sales volumes are underperforming compared to

2019, this is particularly evident in the condo space amongst which saw a negative year-over-year change rate of 25.99% in August, which represents 6,372 monthly sales. Throughout 2020, non-condo property types have also underperformed compared to the same time in 2019, but have recovered quickly amongst the non-first-time home buyer group. In August, the monthly non-condo residential sales volume still trending upward catching up with 2019's monthly sales volume.

"We are seeing a situation in which the condo space is facing excess supply. We are seeing significant increase in completions, not enough demand, the rental market is not there, investors are not there and banks are becoming more careful with investors so supply of credit isn't what it was. All of these forces suggest that the housing market will slow down over the next six months with the economy, but it will be led by the condo space."

- Benjamin Tal, CIBC

FIGURE 4: Monthly Residential Property Sales by Property Type and Home Buyer Segment



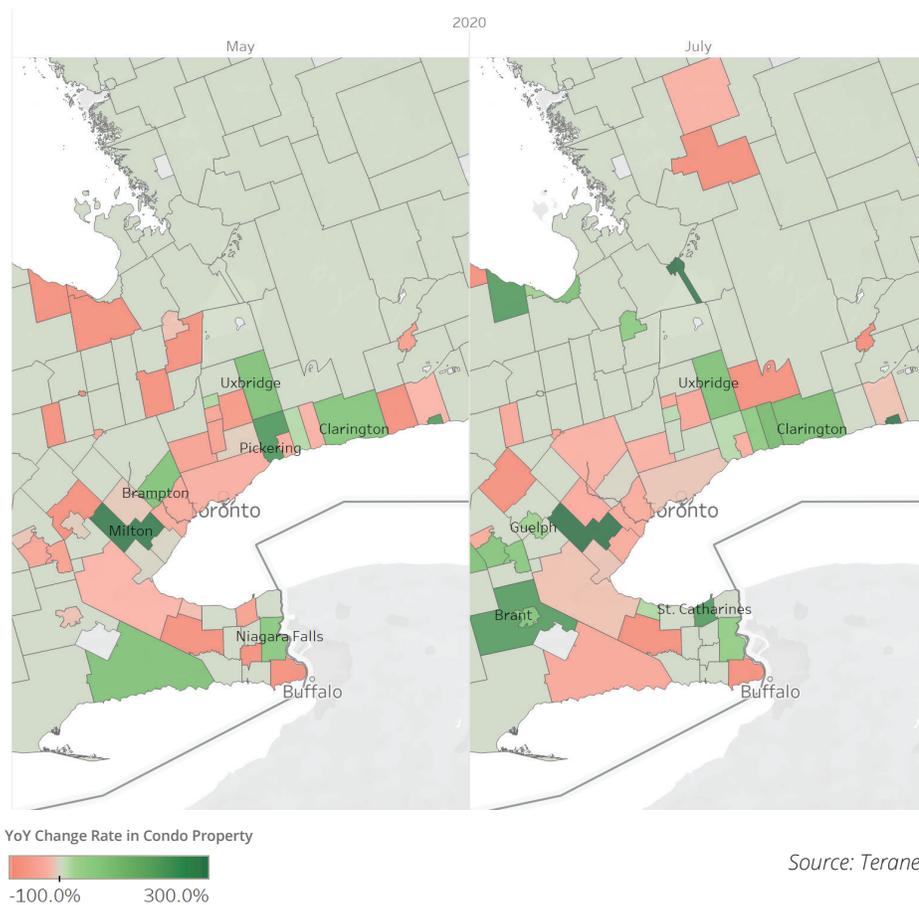
Source: Teranet

Home Buyer Migration

When we look at where home buyers are purchasing homes, we can see positive year-over-year change rate for condo property sales outside core* areas such as Toronto, Ottawa, Mississauga, Brampton and Hamilton. When we refer to

Figure 5, we can see that first-time home buyers have steadily purchased condos in secondary core areas, such as Kitchener, Guelph, and St. Catharines that are more affordable than the core urban areas.

FIGURE 5: May and August Comparison of YoY Change Rate of Condo Property Sales Volume by FTHB



"This is a wave that's been happening for a long time, even before COVID-19. The common trigger for this is that buyers want something that looks like a standalone family home. What's happening in Canada, particularly as a result of immigration, is that what used to be the place that people move to is now the place that people start. 90% of the population growth in Canada is in car commuting communities, a lot of that is driven by immigration. If we look at the Toronto area, the starting community now is not a downtown community it's a place like Scarborough. Those are the places that we're seeing an expansion and beyond that we're starting to see people move to places that are even questionable in terms of commuting distance in able to achieve that home ownership goal."

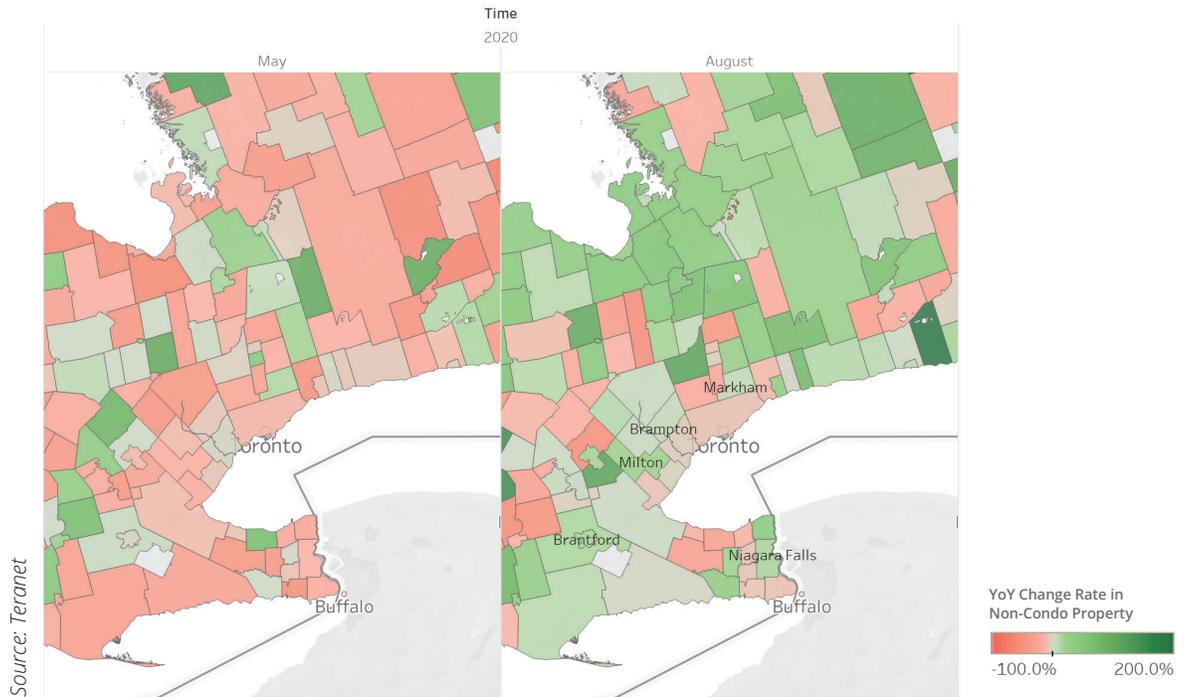
- Darrell Bricker, Ispos Public Affairs

*Statistics Canada defines a core area as the population centre within a census metropolitan area (CMA) or census agglomeration (CA) with the highest population, of at least 50,000 persons. Secondary core areas are defined as population centres within a CMA or CA that has a population of at least 10,000 persons. Fringe areas are defined as a population centre within a CMA or CA with a population of less than 10,000. Any area outside of the core or fringe of a CMA or CA is referred to as rural.

As we saw previously in Figure 4, non-first-time home buyers have shown less interest in condo properties this summer compared to 2019. When we look into the sales volume of non-condo residential properties purchased by non-first-time home buyers, as displayed in Figure 6, it shows that volumes

from May to August in core areas tend to recover slower compared to the secondary core and rural areas. The similar trend of non-condo properties (quicker sales recovery in secondary core and rural areas) also shown in first-time home buyer sector.

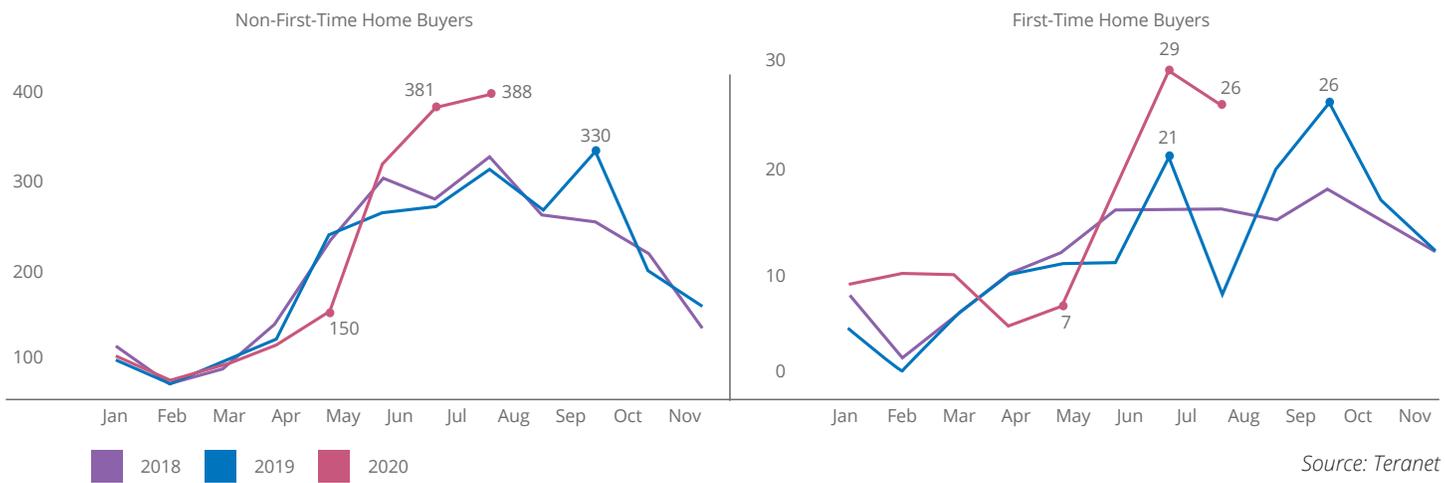
FIGURE 6: May and August Comparison of YoY Change Rate of Non-Condo Property Sales Volume by Non-FTHB



While first-time home buyers and non-first-time home buyers have shown differing preferences in trends regarding condos vs. non-condos and different regions, we can see that both groups have shown great enthusiasm towards seasonal

properties this summer, as displayed in Figure 7. Although seasonal properties make up less than 1% of the monthly non-condo residential sales volume, the surge seen in sales for this property type was significant.

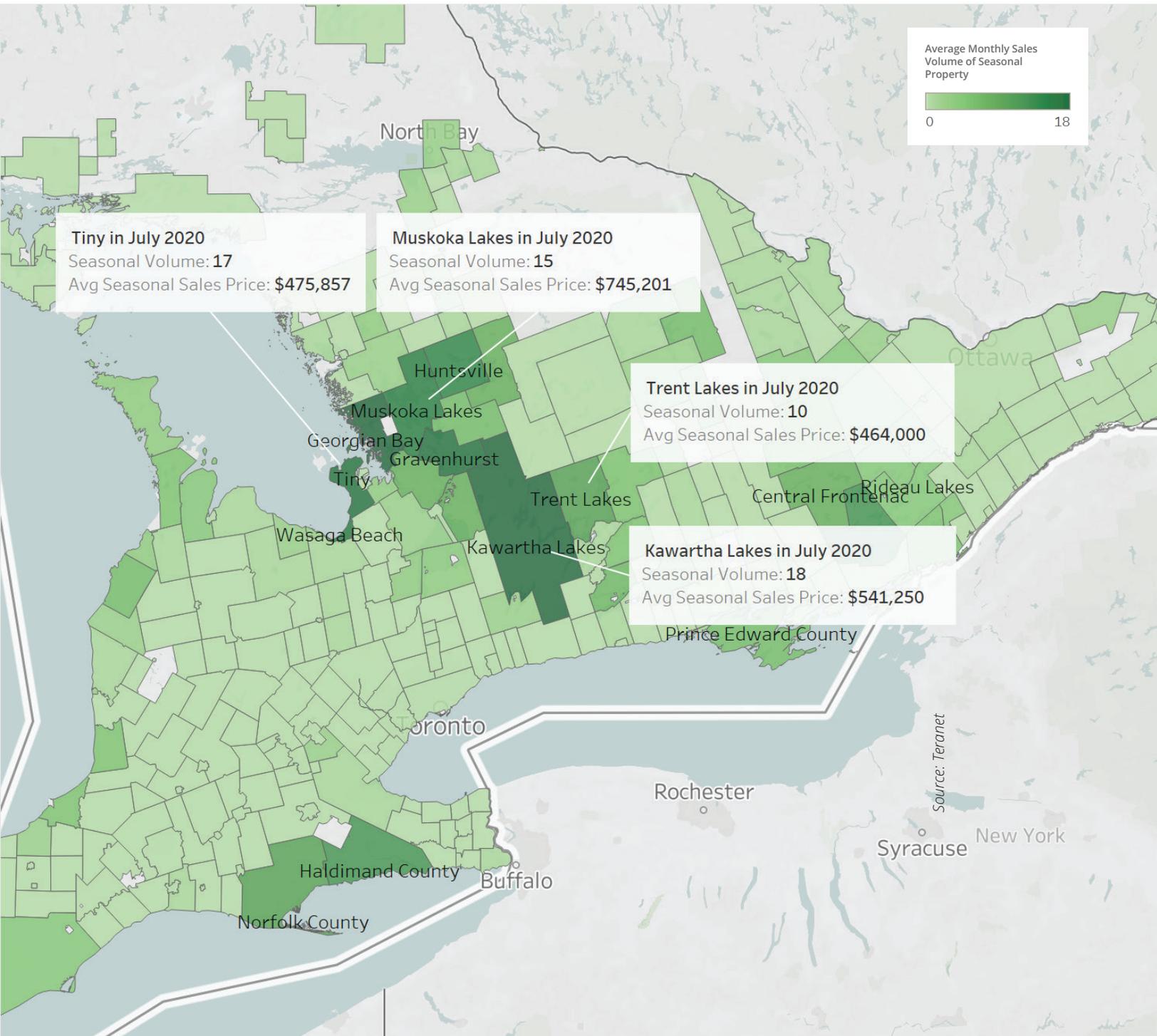
FIGURE 7: Seasonal Property Sales Volume by Home Buyer Segment



First-time and non-first-time home buyers are both buying seasonal properties in the same areas/municipalities, which includes Wasaga Beach, Muskoka Lakes, Central Frontenac, Rideau Lakes and Huntsville. These municipalities have seen a significant increase in their total seasonal property sales

compared to 2019, Muskoka Lakes, for example, had a year-over-year growth of 650% in June. We'll see over time if these new homes remain 'recreational' or become 'remote working residences'.

FIGURE 8: Map of Top 10 Seasonal Property Municipalities



Mortgage Refinance and Switch Volumes

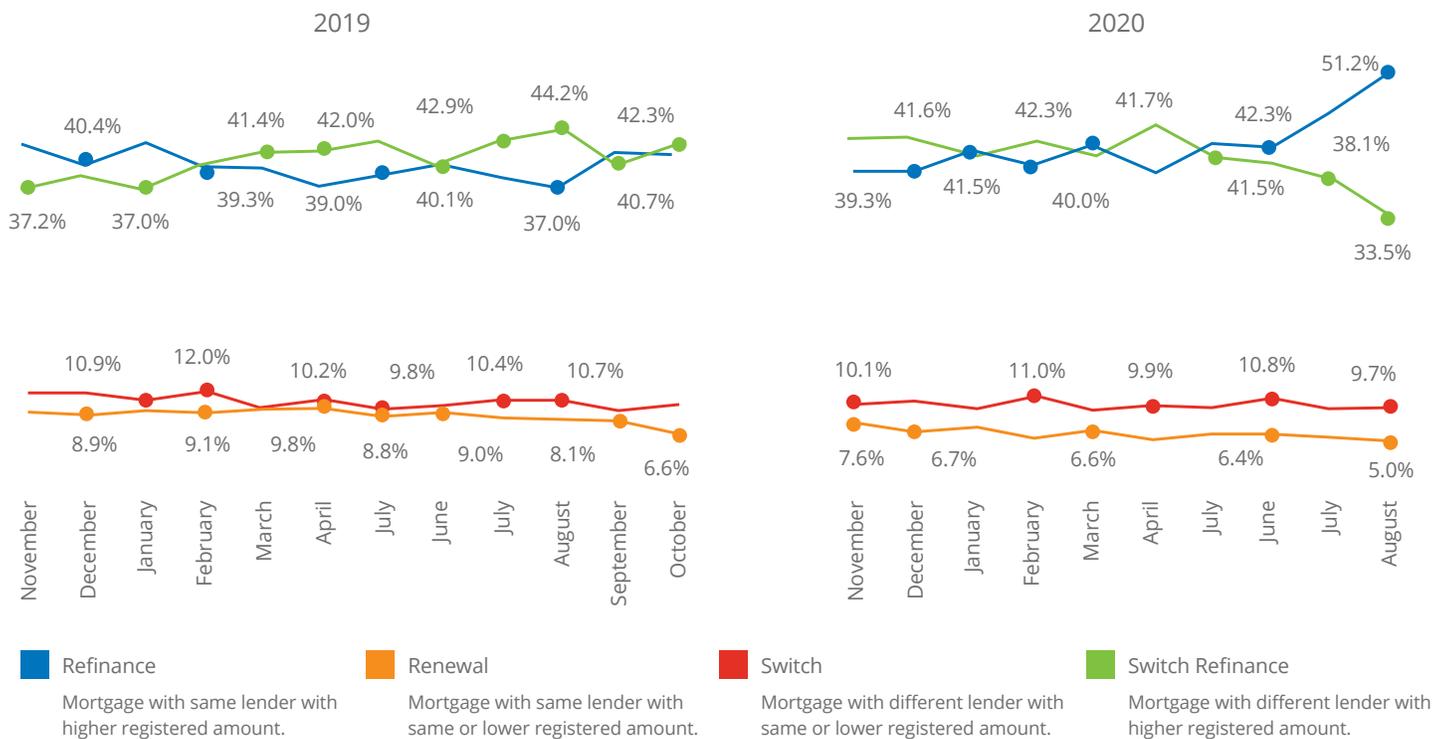
When we look at refinance and lender switch volumes in 2020, as depicted in Figure 9, we see the trend of home owners staying with the same lender and choosing to borrow more money in their new mortgage rather than switching to a new

lender for the additional financing. The data shows a different trend in previous years, for example in July and August in 2018 and 2019, the switch ratios tend to be higher than refinance volumes.

"When COVID-19 hit we took a deeper dive into our books and where the issues were going to be. We didn't really see as many deferrals as we initially expected. The average book received 10%-15% referral requests, but the majority of our borrowers aren't low income Canadians, they are equity borrowers and business-for-self. Initially many MICs lowered their loan to values, but this was only the case for the first two to three months of the pandemic. As we entered into July and August the markets were moving and we didn't see a dramatic decrease in prices, lending started again and we're back to where we were pre-COVID-19."

- Hali Noble, Fisgard Asset Management Corporation

FIGURE 9: Share of Mortgage Financing Types

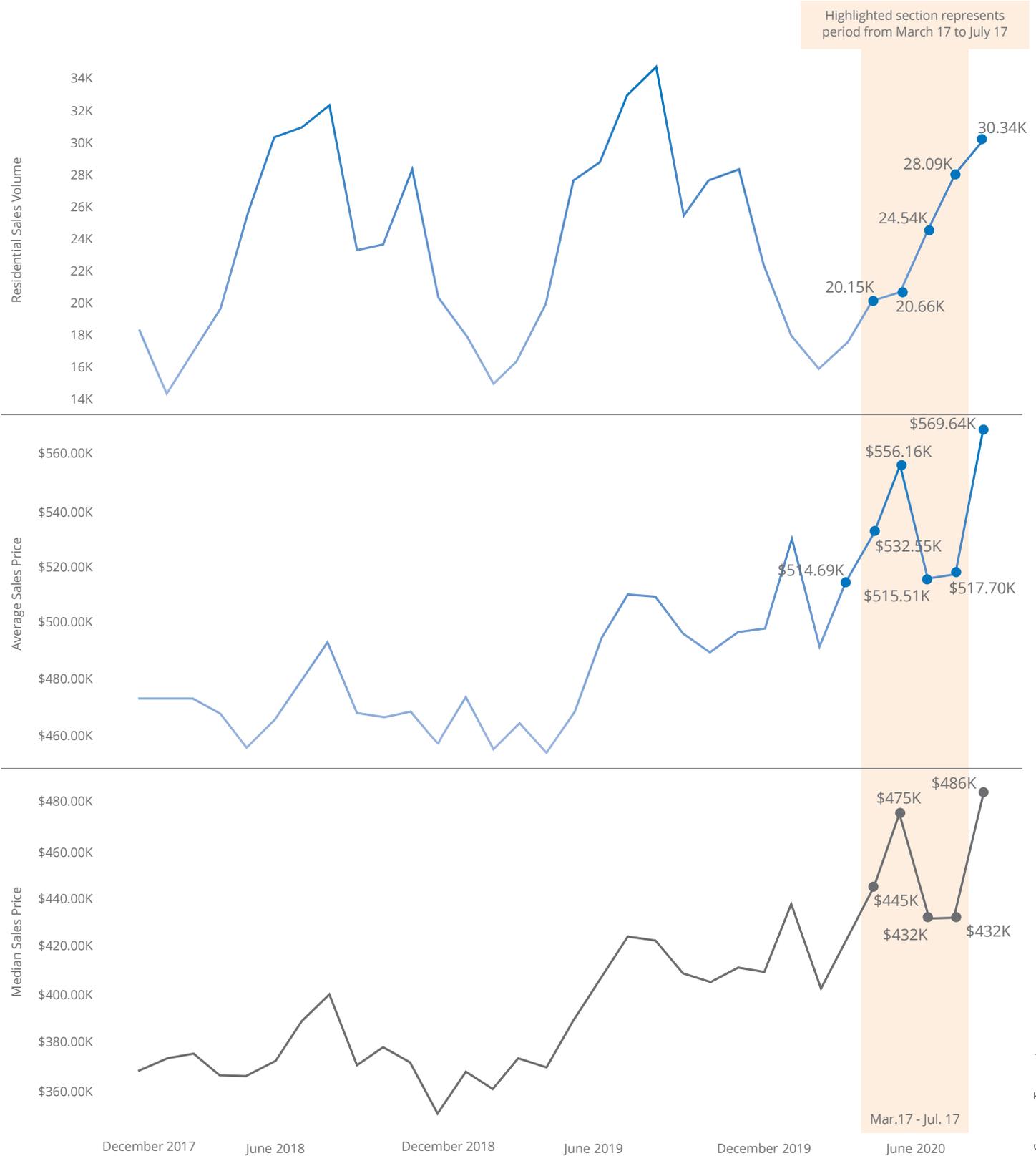


Source: Teranet

Data in this section of the report may be affected by a lag due to the registration status of mortgages in the land registry. When a mortgage registration is submitted to the land registry Teranet's system will receive the information immediately. The default initial status for this record is 'pending'. It takes about 7 to 10 days for the land registry office (LRO) to certify the mortgage registration, which changes the 'pending' status of the mortgage record to 'certified'. In general, around 1% of mortgage registrations will be rejected. In our reports we tend to use only 'certified' mortgage registration records even though majority of the 'pending' mortgage registration will be certified within the 7 to 10 day time period.



REFERENTIAL CHART: Three-Year Registered Residential Property Sales Volume, Average Sales Price, and Median Sales Price Change



Source: Teranet

Final Thoughts from Industry Experts

"The fastest growing segment of the Canadian population is women over the age of 65, and homeownership among older women is much higher than it is among older men. When we look 10-15 years down the road, this is a part of the population that is growing and requires more focus. The idea that potential home buyers are families with two parents and two kids needs to change as this population is becoming smaller and smaller every day. People that are involved with selling and buying real estate need to stop thinking about what Canada used to look like and start thinking about what Canada is going to start looking like."

– Dr. Darrell Bricker, Ipsos Public Affairs

"One noticeable change we have seen over the past six months in the private mortgage market is that many of our clients who have previously come to us looking for a mortgage to purchase a rental property, are now coming to us to invest in our pools of mortgages. They don't want to buy a rental property if the values are too high or inflated with downside risk. Ultimately they still believe in investing in Canadian real estate, this time as a mortgage investor via a MIC, not as an owner of an investment property with all of the tenancy issues and value risk that come with it."

– Hali Noble, Fisgard Asset Management Corporation

Teranet is dedicated to providing a full and authoritative view of the mortgage market during period of uncertainty by leveraging our unique mortgage registration data to generate powerful insights. Through our LendView platform, Canadian lenders can ensure mortgage interests are properly registered/discharged, perform on-going valuation and risk analysis of their mortgage portfolio, monitor post-funding registration activity to mitigate risk and complete competitive analysis to better understand their position in the market on an ongoing basis.

If you need more information about this report's data, derived from our LendView solution, the Teranet Data Science Lab can help you dig deeper. Our data scientists will work closely with you to answer your questions with insights from our proprietary databases.

Contact your Teranet Account Manager or Kan Zhu at kan.zhu@teranet.ca if you'd like to learn more about LendView or the Teranet Data Science Lab.

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