

A Deep Dive into Housing:

Understanding Near-Term Trends
and Secular Drivers

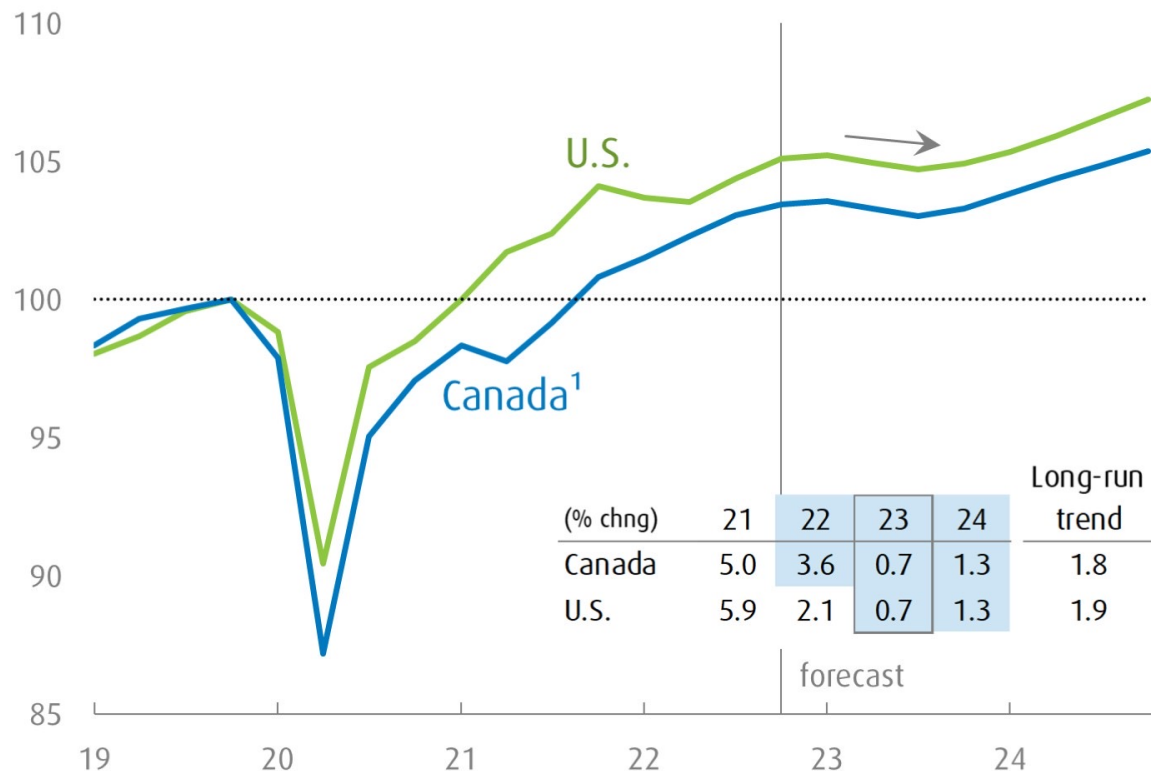
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North America: Growth poised to stall

(2019Q4 = 100)

Real GDP



Resilient so far:

- Services spending
- Excess demand in job market
- Pandemic savings

Concerns:

- Lagged effects of rate hikes
- Inverted yield curve

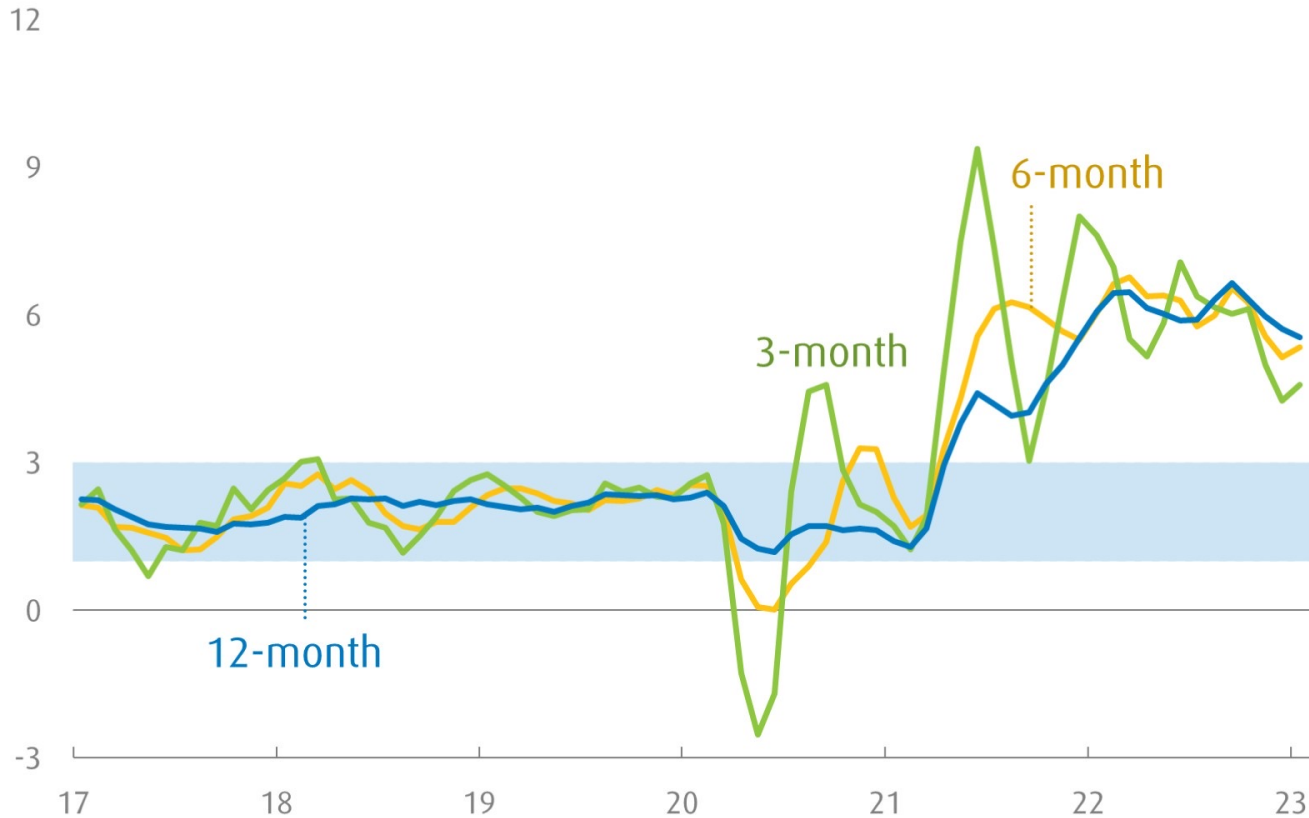
Base case scenario: mild contraction

¹ 2022Q4 = BMO Economics estimate

Watching for inflation relief

United States (% chng)

Core consumer price inflation



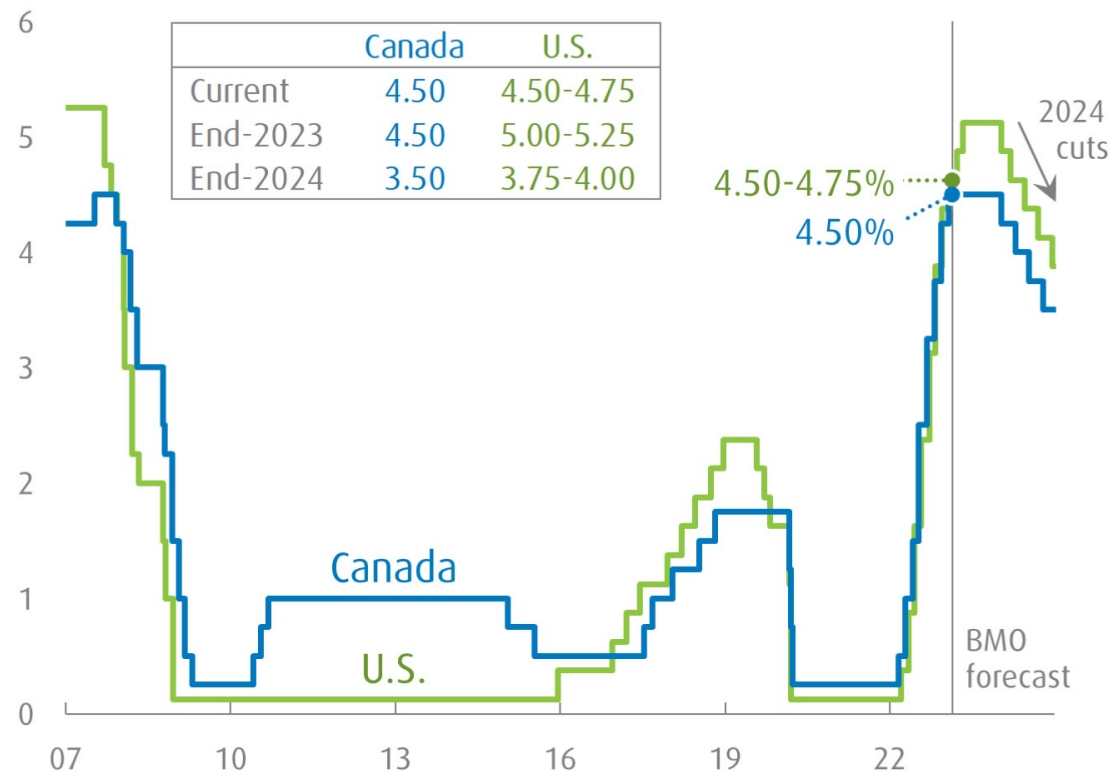
Where's the relief?

- ✓ Demand for goods
- ✓ Supply-chain snarls
- ✓ Housing/asset prices
- ? Resource and agriculture prices
- ✗ Demand for services
- ✗ Wage pressure
- ✗ Psychology

Monetary tightening running its course

(% : as of February 21, 2023)

Overnight rate



10-year bonds



Upward pressure on bond yields as economy expands
Quantitative tightening (QT) also incoming

Mortgage rates: The new, old normal

Canada (percent : month-end : as of February 14, 2023)

Uninsured residential mortgage rates



¹ Current market rate • ² Year-end 2023 forecast

Where we are:

Variable mortgage payments rising/
getting triggered

~20% of mortgage market is variable
rates taken out around 1.5%

But stress tested >5%

What's next:

Neutral rates higher than past decade

Prices adjusting down

Financial system well protected

Housing correction v.2022

Canada



What's going on?

Generational ↑ in borrowing costs

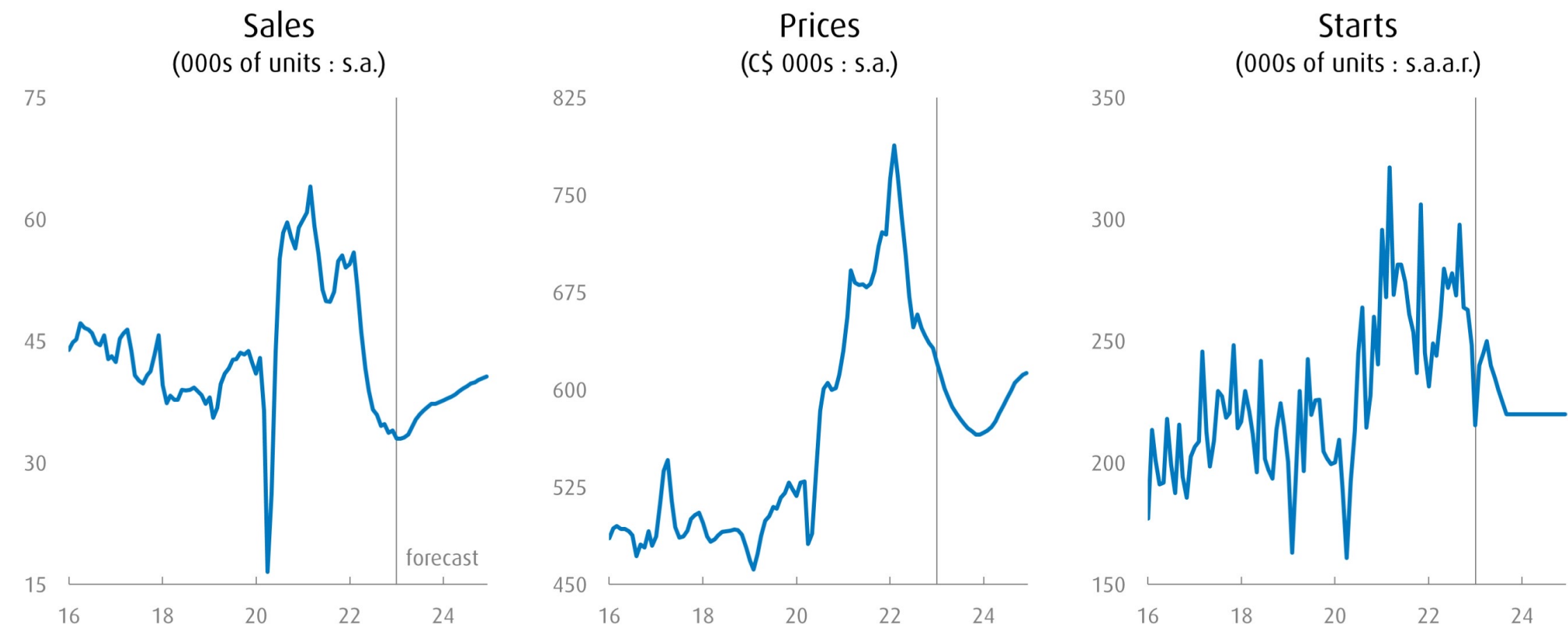
Speculation and FOMO gone

Repricing underway

Financial system and core fundamentals are solid

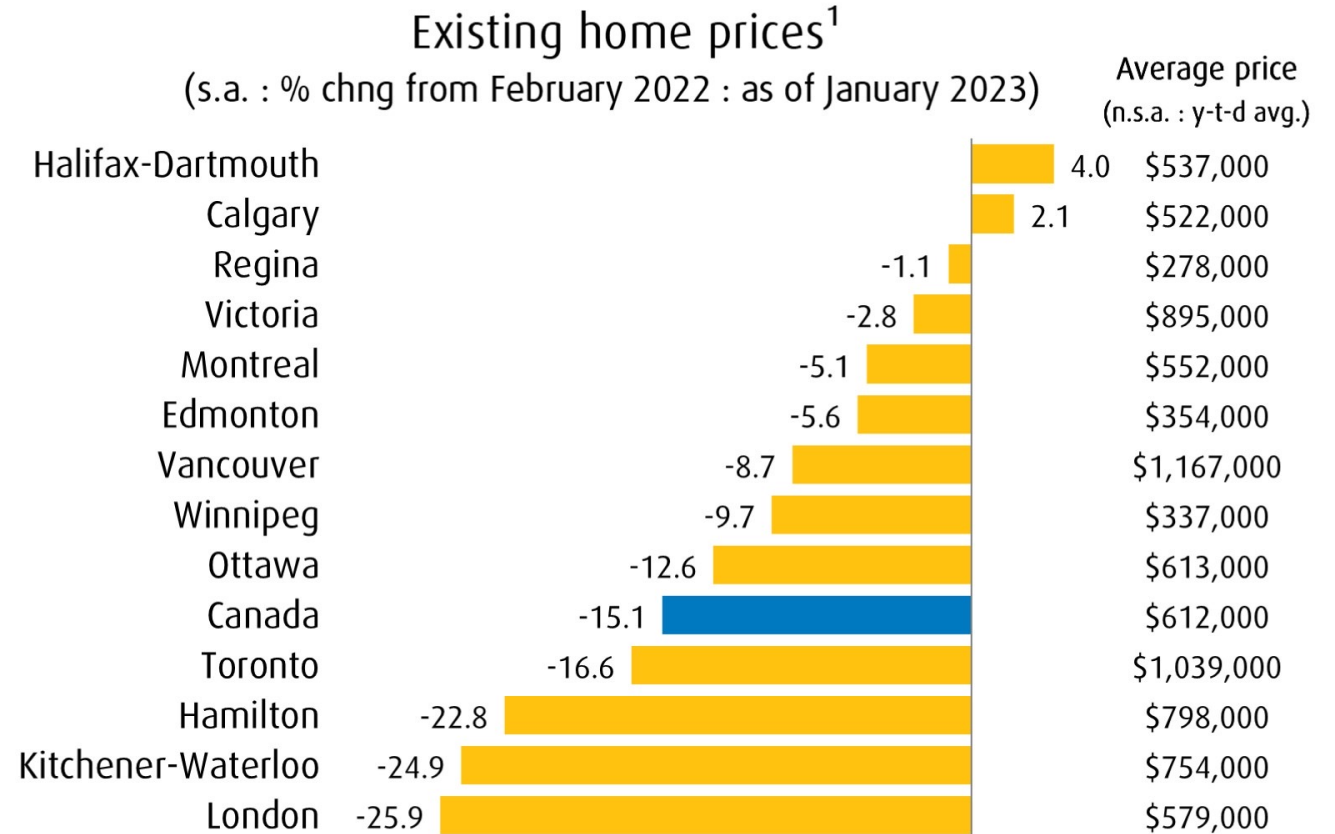
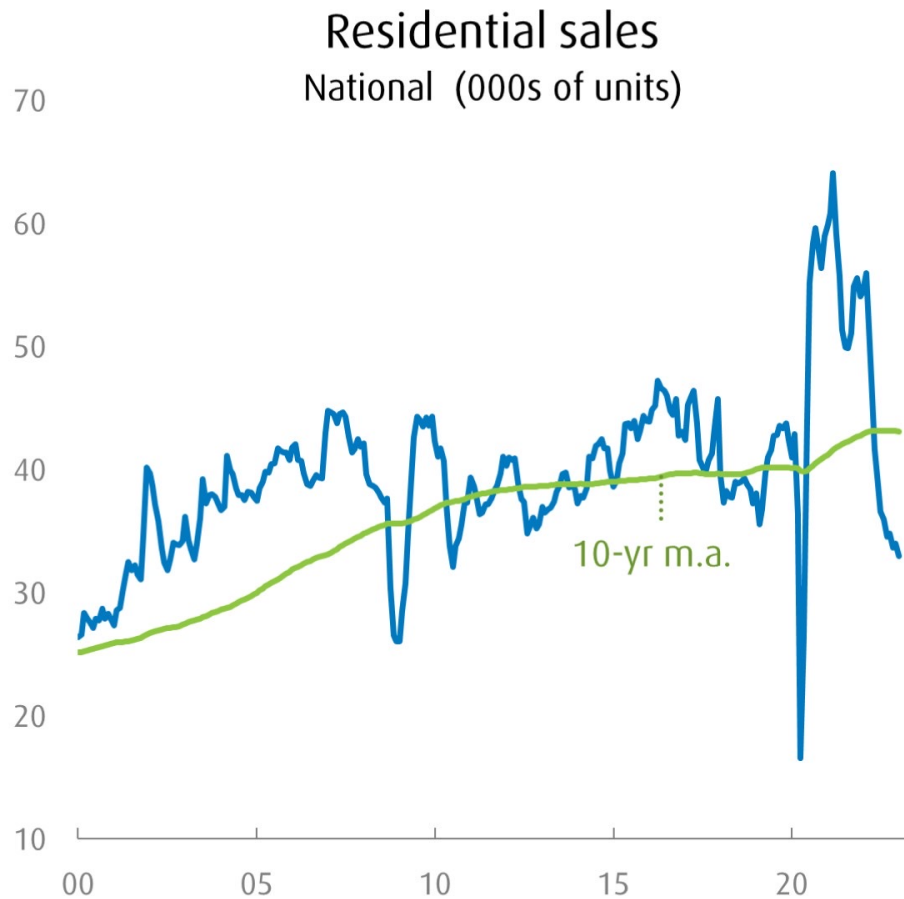
Housing outlook in a nutshell

Canada – Housing



It was excess demand all along

Canada – Homes

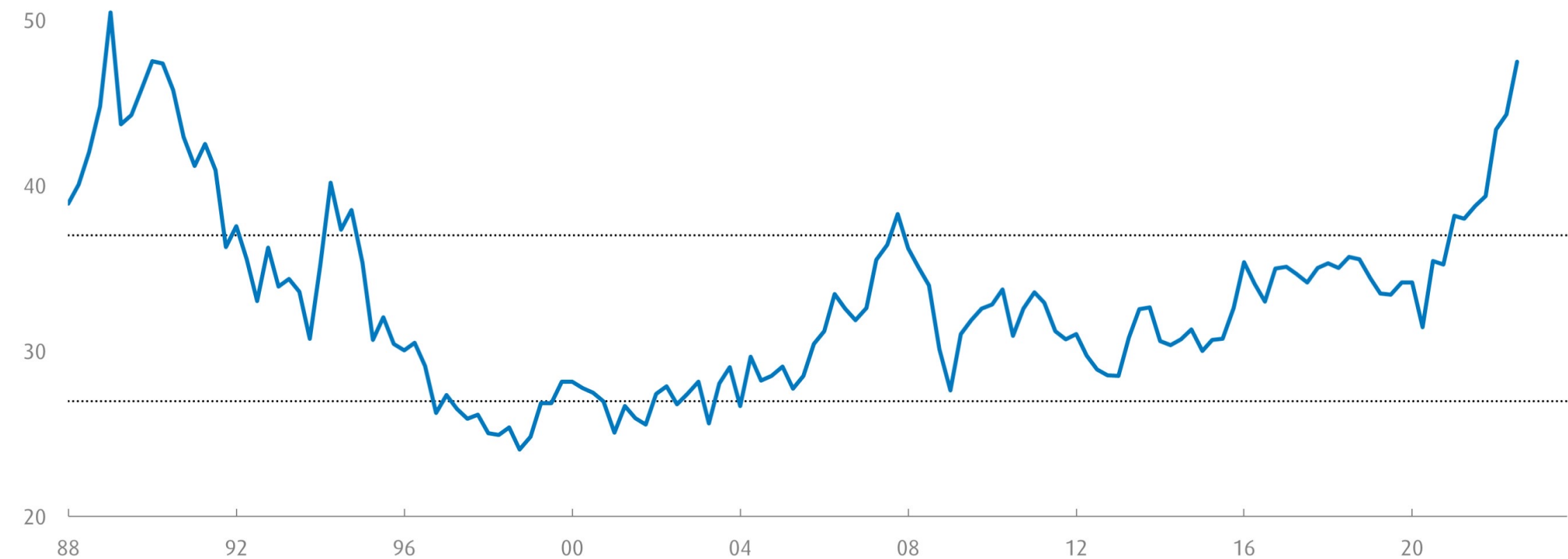


¹ HPI composite benchmark

Mortgage rates drive repricing

Canada (% of household income¹)

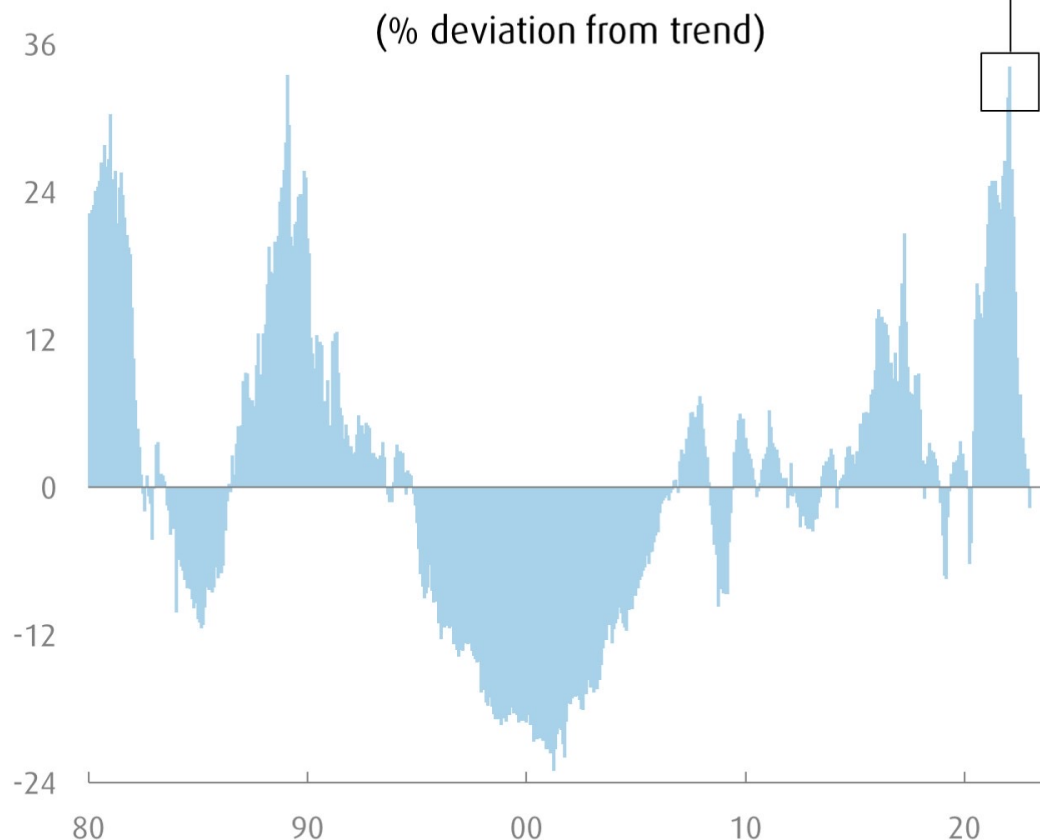
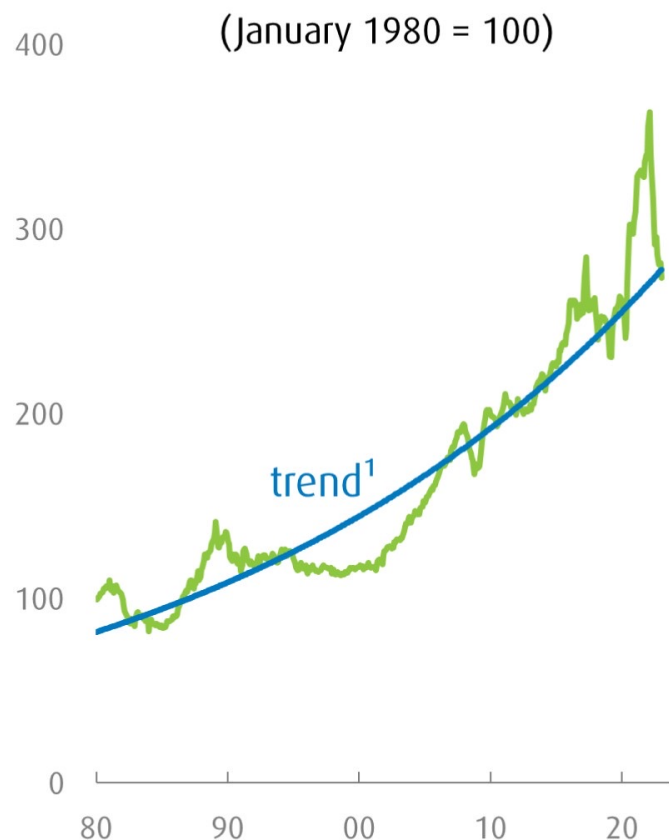
Mortgage payment



¹ Assumes stable home prices, 10% down payment, 25-year amortization, income growth at 5% annualized, LF growth at 1.2% a.r.

Cleaning up the froth

Canada – Real home price

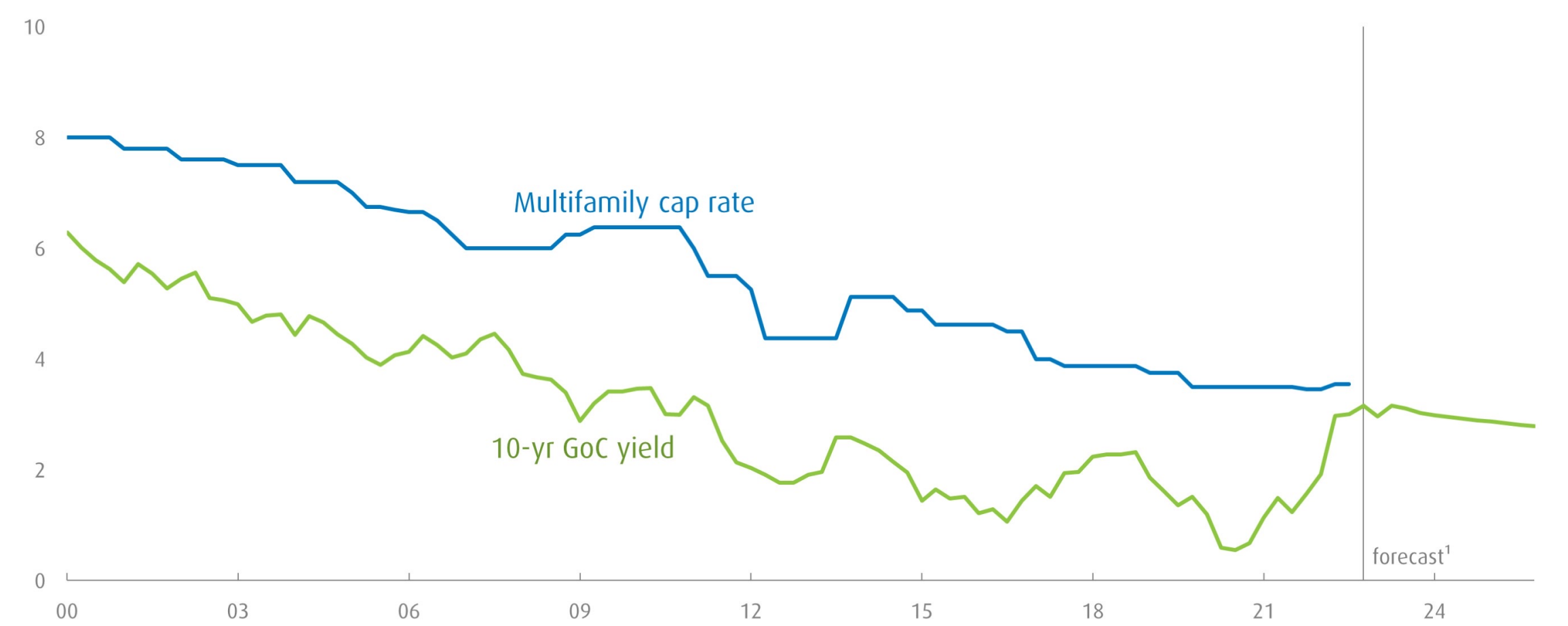


Peak deviation (%)	
BC	21.4
AB	-5.0
SK	-3.4
MB	12.3
ON	55.4
GTA	41.2
Exurbs ²	76.3
Cottage ³	63.6
QC	32.6
Atlantic	34.7

¹ Exponential growth trend since 1980 • ² Barrie, Guelph, Hamilton, Kitchener-Waterloo, London, Niagara, Orillia, St. Catharines, Windsor • ³ Bancroft, Kawarthas, Muskoka-Haliburton, South Georgian Bay

Investors' assessment

Toronto (percent)

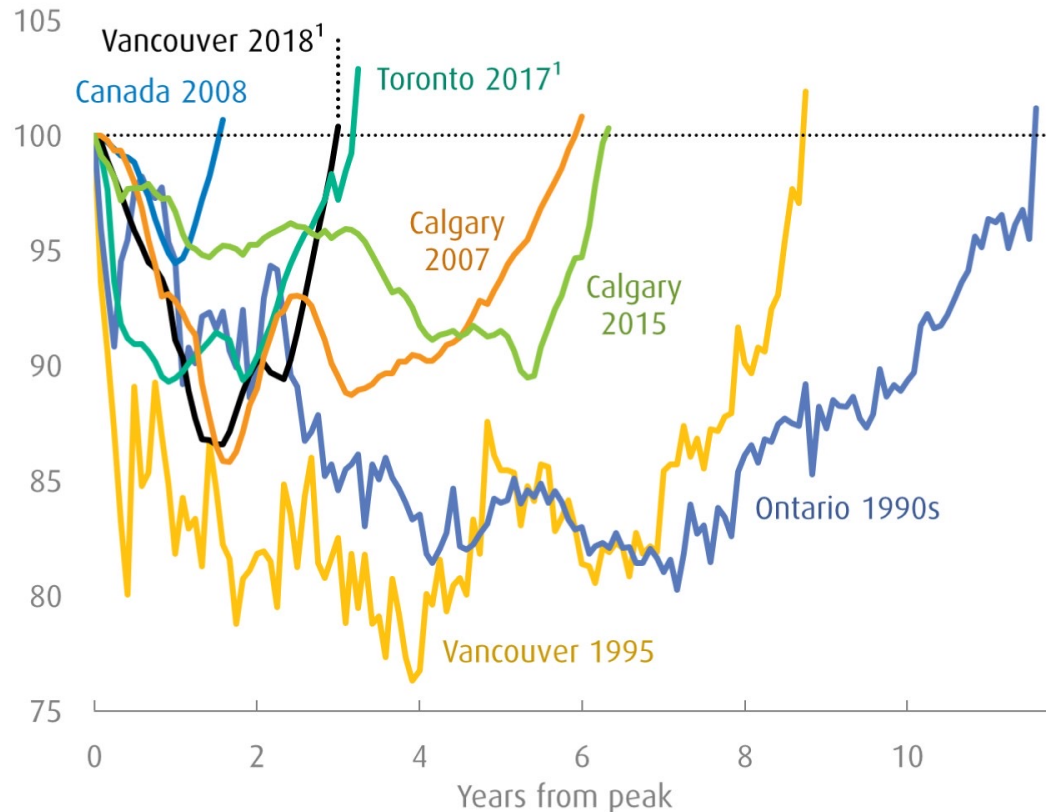


¹ Cap rate forecast is an illustration based on the spread vs. 10-yr GoCs returning to pre-COVID norms; BMO Economics does not explicitly forecast cap rates

A brief history of housing corrections

Canada (peak = 100)

Select home price declines



Start	Market	Factors	Decline (%)	Years to bottom	Years to recover
1989	Ontario	Interest rates, recession	-20	7.2	11.6
1995	Vancouver	Rates, foreign investment	-24	3.9	8.8
2007	Calgary	Oil boom/bust	-14	1.7	6.0
2008	Canada	Global financial crisis	-6	1.0	1.6
2015	Calgary	Oil boom/bust	-11	5.3	6.3
2017	Toronto ¹	Interest rates, tax	-11	0.9	3.3
2018	Vancouver ¹	Interest rates, tax	-13	1.5	3.0
Average			-14	3.1	5.8

¹ Detached homes

The supply challenge

Canada – Homes (000s of units)



¹ (s.a.) • ² (4-qtr m.s.)

Do we need more houses?

Millennials creating households

Immigration targets push 500k per year

But...

Investor demand has cooled

Record units already under construction

Industry is at full capacity

Project cancellations?

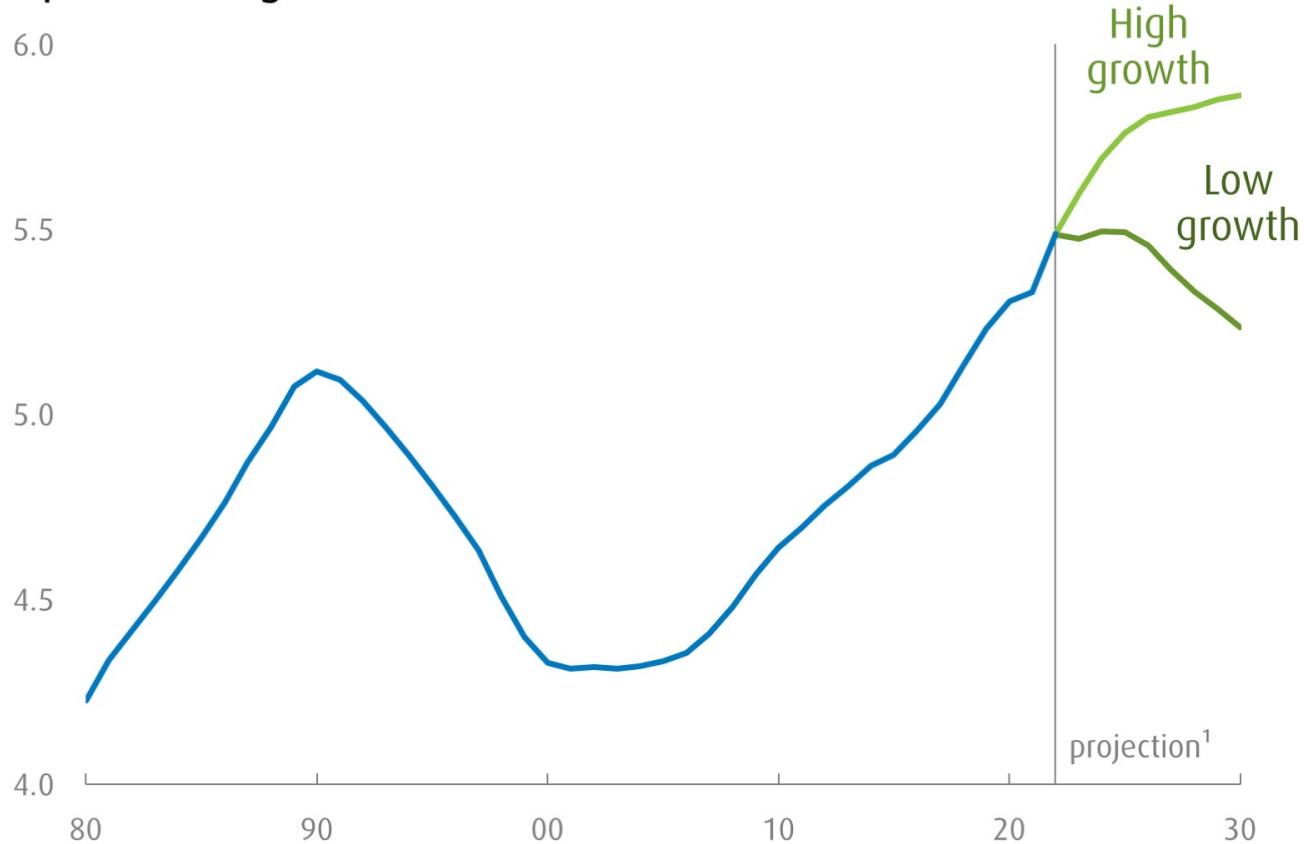
NIMBY

Ambitious targets can't be met

Demographic support?

Canada (mlns)

Population: Age 25-34



¹ Statistics Canada estimates

Demographic drivers:

- ✓ International immigration
- ✓ Provincial migration (BC, AB, ATL)
- ✓ Millennial aging

Interprovincial flows boosted

International targets elevated

Takeaways for real estate



Mortgage rates near peaking, but near-term rate cuts unlikely

Downward **price discovery** will continue through 2023

Regional performance will vary... Alberta is best positioned, while Southwestern Ontario (Toronto exurbs) will struggle most

Government **supply** targets will prove next to impossible to hit; a wave of completions is coming

Fundamental cash-flow driven **investment** replaces speculation

Peak **demographic** demand is near, but high immigration targets will stave off a 1990s-like bust

Longer-term price growth will be much more subdued, and stagnant in some markets

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