



Rates and Markets

How Real Estate Markets Work... or Don't



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What the past year has clearly demonstrated is that the most influential factor in Southern Ontario's resale market, whether residential, recreational, or waterfront, is the Federal Government's monetary policy. Specifically, the decisions made by the Bank of Canada are crucial, as they relate to its views on inflation and, correspondingly, its benchmark rate. The metaphorical expression 'a rising tide lifts all boats' can be rephrased and reversed

as 'rising Bank of Canada benchmark rates sink all real estate markets'.

During the pandemic, starting in 2020, the Bank of Canada continued to lower rates in order to keep the Canadian economy liquid and stimulated. And it succeeded, beyond anyone's expectations. By February of 2022 the Bank rate was a mere 0.25 percent. Notwithstanding protocols and restrictions on viewings and showings in order to avoid the transmission of the Covid-19 pandemic, southern

Ontario's real estate market was on fire. Sales volumes and average sale prices had reached historic highs.

For example, in the greater Toronto region the average sale price had increased to \$1,334,000 and sales volumes were trending well above historic norms, reporting more than 10,000 sales in March.

In Ontario's cottage country (Muskoka, Haliburton, Lake of Bays) the average sale price had reached \$1,016,394, 24 percent higher than 2021 and 142 percent higher than 2020. Waterfront properties in the same region were also posting very strong numbers. The average sale price came in at \$1,266,284, 18 percent higher than February of 2021, and 132 percent higher than 2020.

The numbers were just as impressive along southern Georgian Bay (Collingwood, Meaford, Blue Mountains, Wasaga Beach). In February 2022 the average sale price had been driven up to \$1,132,000, 44 percent higher than 2021, and 95 percent higher than 2020. The numbers were even more eye-popping for the region's

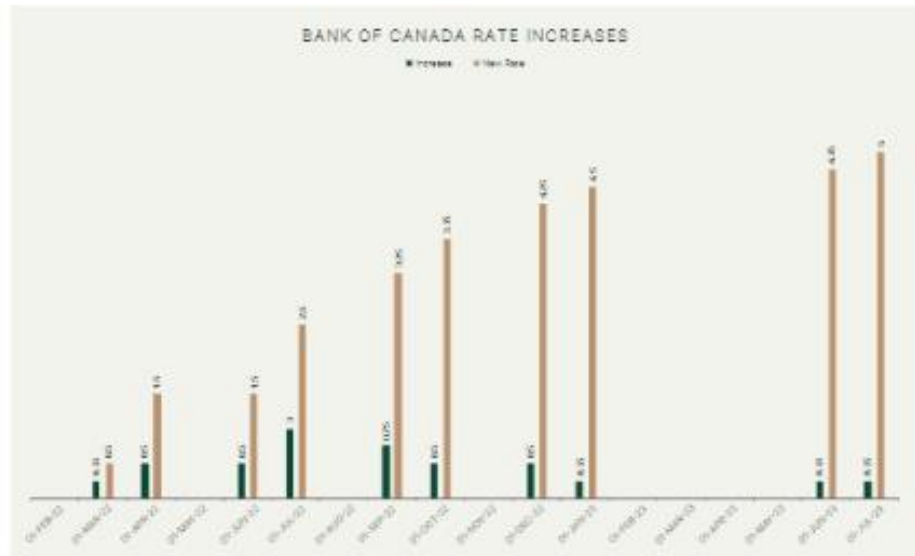
waterfront sales. The average sale price came in at \$1,084,000, 53 percent higher than February 2021 and an incredible 191 percent higher than 2020. As an aside, February's average sale price was 264 percent higher than prices achieved in February of 2019.

The incredibly elevated prices were all a result of the Covid pandemic and the Bank of Canada's monetary policy, which led to the lowest interest rates in Canadian history.

Since the spring of 2022 the Bank of Canada has relentlessly increased the benchmark rate at an unprecedented rate. It is currently 5 percent. It was 0.25 percent in early March 2022, an increase of 1,900 percent in 17 months.

Interestingly, the effects of this 1,900 percent increase in the bank rate have not been uniformly felt. In the greater Toronto area, the exorbitant bank rate has dramatically caused both sales volumes and average sale prices to plummet. In July of 2023 the greater Toronto area resale market registered only 5,250 sales, a decline of more than 50 percent compared to the 10,861 properties sold in March of 2022. The 5,250 reported sales were consistent with the number of sales registered in July of 2000 when the population of the greater Toronto area was almost one half of what it is today. Prices have similarly been impacted although not quite so dramatically. In the spring of 2022 the average sale price for the region was \$1,334,000. In July of this year it had dropped to \$1,118,000, a decline of more than 16 percent.

Neither the Muskoka region market place nor the southern Georgian Bay market place have reacted identically to the implementation of the punishing benchmark rate increases, although both have been negatively impacted. Looking at what has happened in the Muskoka region, in 2023 (to July) we see that the residential sales market has declined by more than 20 percent compared to the same period in 2022. The decline in the waterfront sales volume is just over 15 percent. Remarkably, and distinctly



different than the greater Toronto experience, average sale prices have not only remained strong but compared to 2022 have actually strengthened. The average sale price for residential sales to the end of July increased by 2 percent as compared to 2022, and waterfront prices have increased by almost 3 percent. In the Muskoka Lakes region, which includes Muskoka's big lakes, Lake Rousseau, Muskoka, and Joseph, compared to 2022 the average sale price is higher by almost 10 percent, coming in at \$2,734,000, although sales, like other regions are down by almost 13 percent compared to the period, June to July, of 2022.

The Southern Georgian Bay market has also shown dissimilar performance compared to the greater Toronto area market, both in terms of residential and recreational properties. On the residential side sales volumes have declined by more than 20 percent year-to-date compared to the same period last year, yet notwithstanding this large decline, the average sale price, like in the Muskoka region, has strengthened by 2 percent to \$1,029,000. In a somewhat surprising turn of events, the waterfront market place has experienced a mild decline in sales volume (-2.8 percent) but a massive decline in average sales price, coming in year-to-date at \$1,141,067, or almost 25 percent. This is the deepest decline in average sale price in

any of the markets explored in this report.

What this tells us is that the southern Ontario marketplace, both residential and recreational, is very sensitive to declining or rising Bank of Canada benchmark rates. The Bank's decisions have a direct impact on affordability, particularly in urban, metropolitan areas where real estate decisions are most often driven by necessity, unlike purchases of recreational waterfront property, which are discretionary. Rising mortgage interest rates have made purchasing real estate in the greater Toronto area, the Muskoka region or southern Georgian Bay less affordable, and even though waterfront sales have managed to keep sale prices from declining, sales numbers are down because fewer buyers can afford this very expensive real estate.

These resale numbers make it unequivocally clear that the Bank of Canada, and the Bank alone, will determine how the southern Ontario resale market performs for the remainder of 2023 and beyond. At time of writing, the Bank made the important decision to hold its benchmark rate. If rates continue to hold through 2023 we will see a strengthening of the market, albeit marginally, as buyers adjust to a less volatile environment. An increase in the benchmark rate will see all real estate markets, like the ships in harbour, sink lower as the financial tide goes out. **E**