

Deciphering the Real Estate Market

Possible clues to help you make informed decisions about your buying.

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Note

Analysis Audience

The average first time home buyer

Analysis Purpose

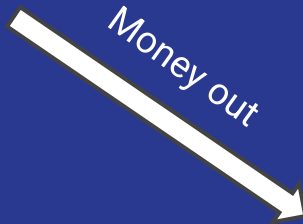
To give people a **basic introduction into a few factors that might affect the real estate market**

The Cycle of Rent

Once a month



Bank Account



Landlord





Maybe I should buy
a house instead



But ...

Bank of Canada raises its key interest rate to 5%

10th rate hike by central bank since March 2022

Business

Inflation jumped higher last month, to 3.3%

**Hotter-than-expected inflation
turns up heat on Bank of Canada**

What does all this mean??



Mortgage Rate

Bank Rate

Inflation

How do all these
things **affect** me
buying a home?

Data Sources & Project Scope

Inflation, Bank Rate, &
Variable Mortgage Rate Data:

Bank of Canada website

Real Estate Data:

toronto.listing.ca

What Years?

2013 - 2022

Where?

Toronto, ON, Canada

Definitions

<i>Homes</i>	-	Any type of home (condos, detached homes, freehold townhomes, etc.)
<i>Bank Rate</i>	-	Interest rate set by the Bank of Canada
<i>Mortgage Rate</i>	-	Average weekly variable mortgage rate
<i>Averages</i>	-	Yearly total average
<i>Percent Change</i>	-	Percentage difference from the previous years total average
<i>Number of Sales</i>	-	Total number of yearly home sales in Toronto
<i>Days on Market</i>	-	Total average number of days a home was on the market before being sold
<i>Sold Price</i>	-	Average sold price of a Toronto home

Inflation

Can be referred to as CPI

Prices Increase

Money value decreases

Bank Rate

Set by the Bank of Canada

Sets Interest Rates for loans
to commercial banks

Mortgage Rate

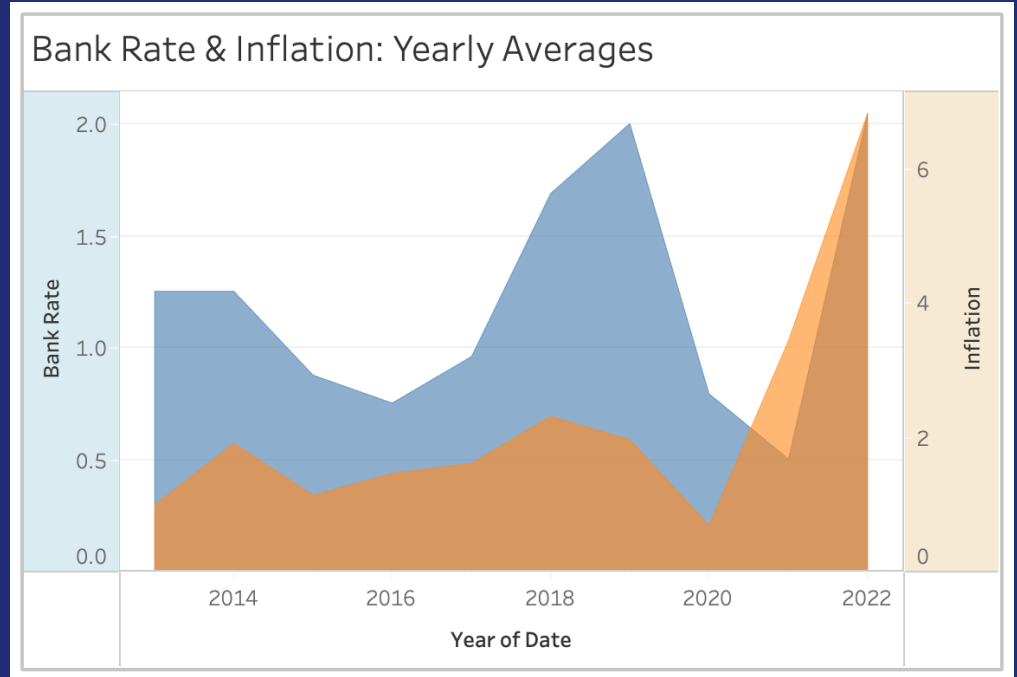
Interest charged by Mortgage
Lender

How do they relate to each other?

Bank Rate & Inflation

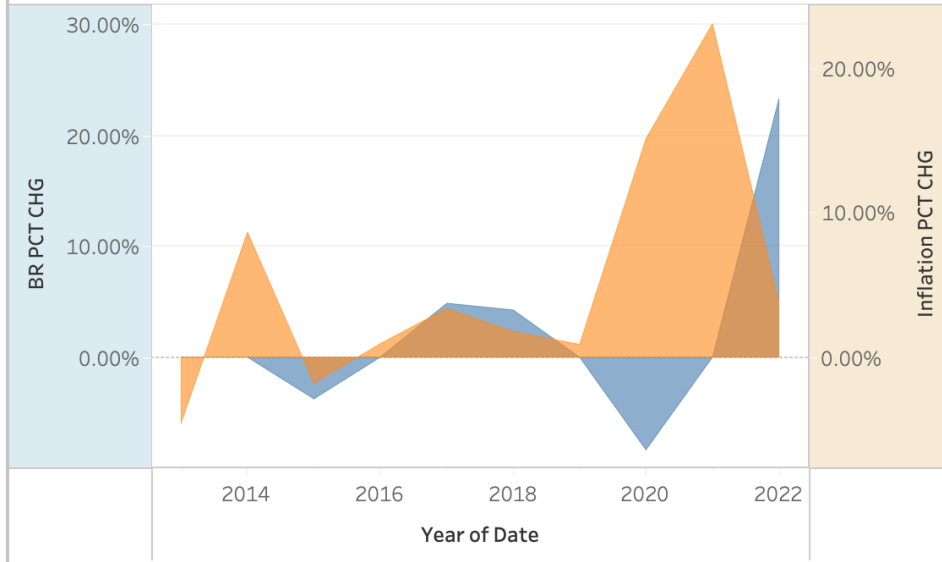
Looking at the averages, there is a **long-term correlation** between Bank Rate & Inflation.

Let's look at the yearly percentage changes for each, to compare.



Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank Rate

Bank Rate & Inflation: Yearly Percentage Change



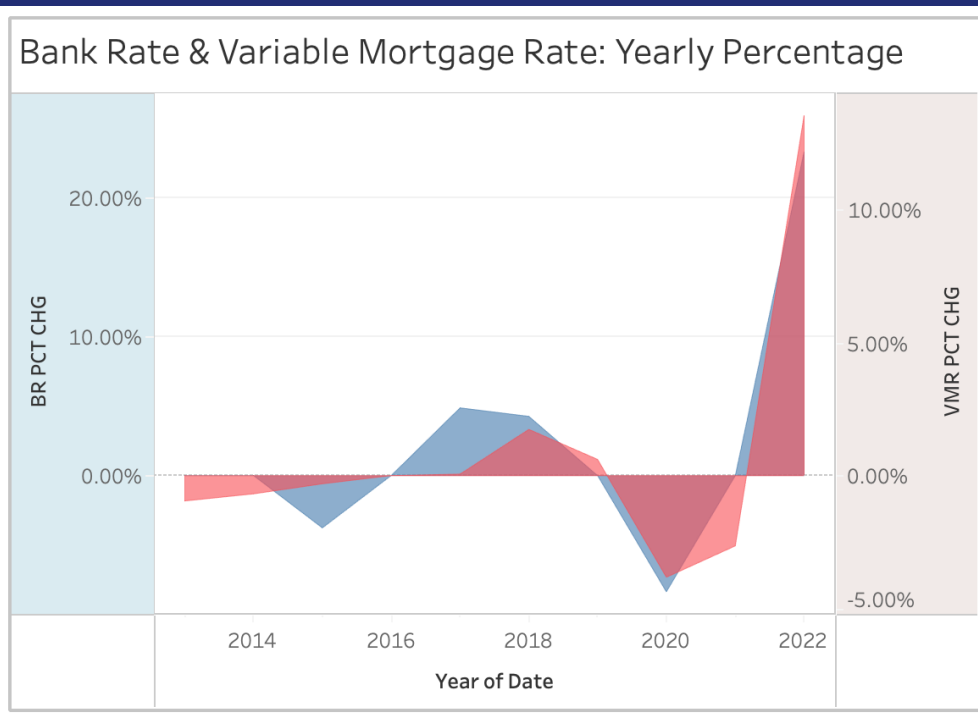
The percentage changes also show a correlation.

However ...

It's worth noting the inverse correlation in 2020 – which (*for the sake of this presentation*) will be considered an **anomaly**, given COVID-19.

Bank Rate & Variable Mortgage Rate

Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank Rate; **VMR** = Variable Mortgage Rate



Here too, we see that there is a **close correlation** between Bank Rate & Variable Mortgage Rate

There is a **broad correlation between
Inflation, Bank Rate, & Variable
Mortgage Rate**

Will be using Bank Rate to look at Real Estate data

Analysis Outcome?

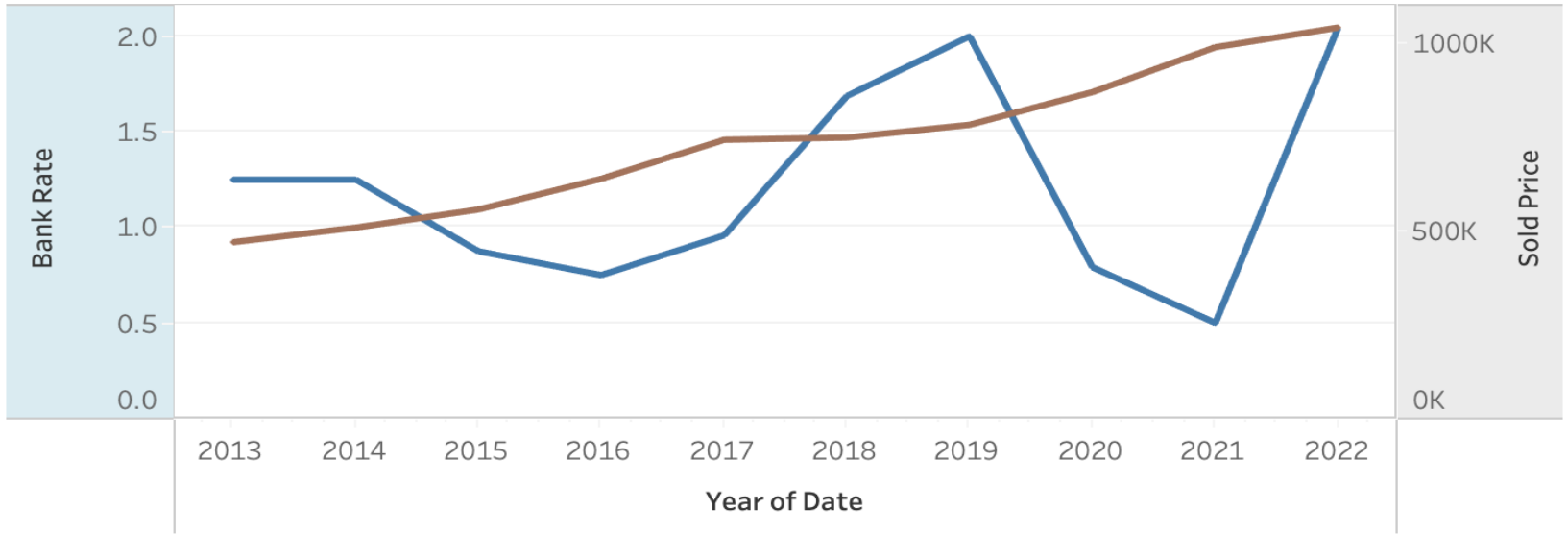
The Bank Rate can be a good indicator for determining the state of the real estate market.

Here's why.

Bank Rate & Sold Price

Is there a correlation?

Bank Rate & Sold Price: Yearly Average



There's a steady increase in Sold Price Over Time, seemingly ignoring Bank Rate movement

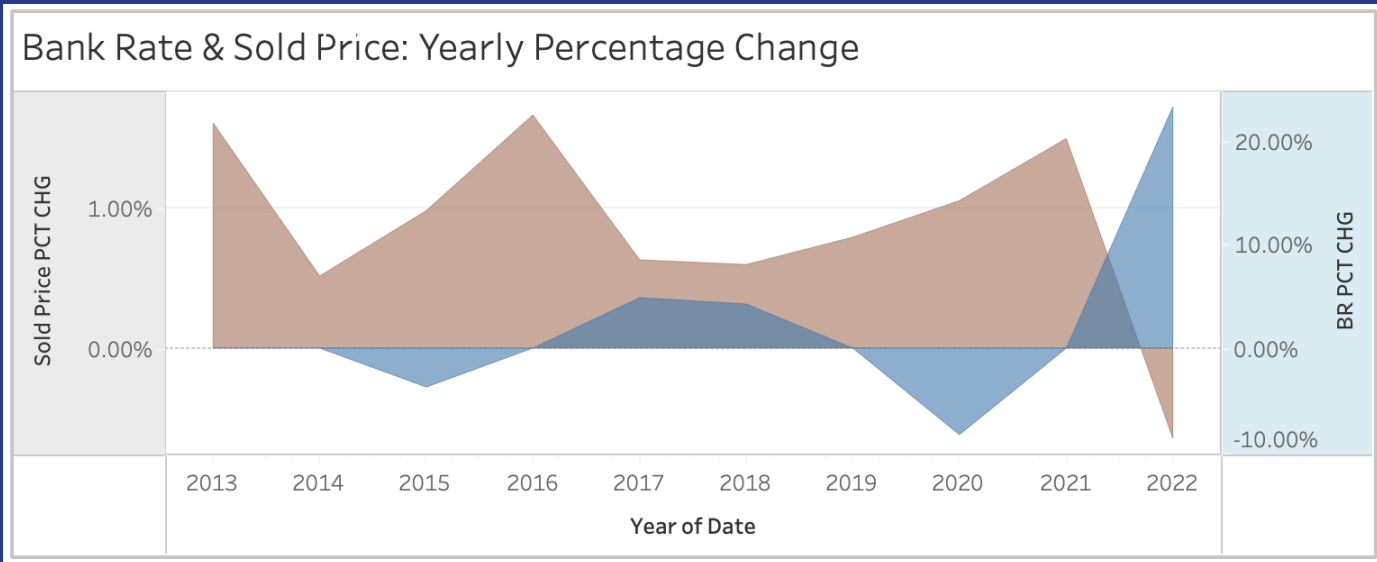
This could be due to a number of external factors (*population increase, foreign investors, etc*)

Percentage changes, however, show a different story. There's a somewhat *delayed inverse correlation* between bank rate & average sold price.

Bank Rate  = Sold Price 

And vice versa

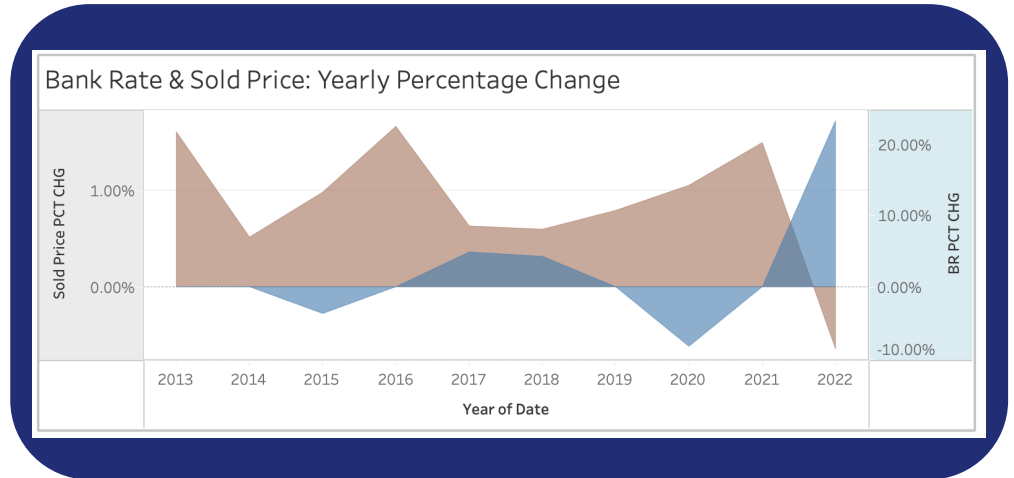
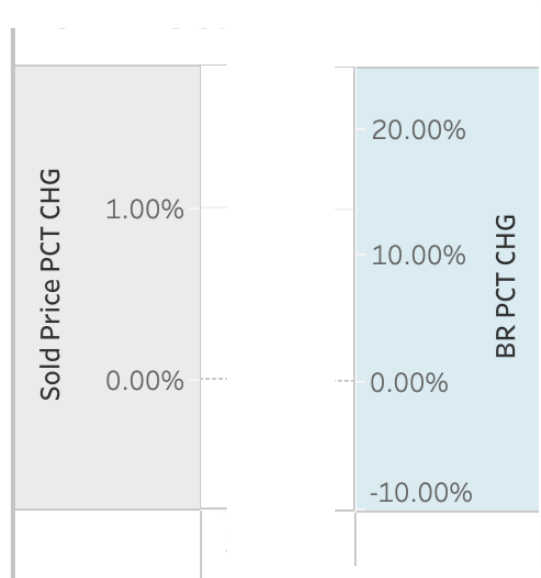
Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank



HOWEVER!!

Be aware that the inverse correlation is not a proportional one.

A 15% change in yearly Bank Rate changes only equates to about a 0.5% change in yearly Sold Price changes.

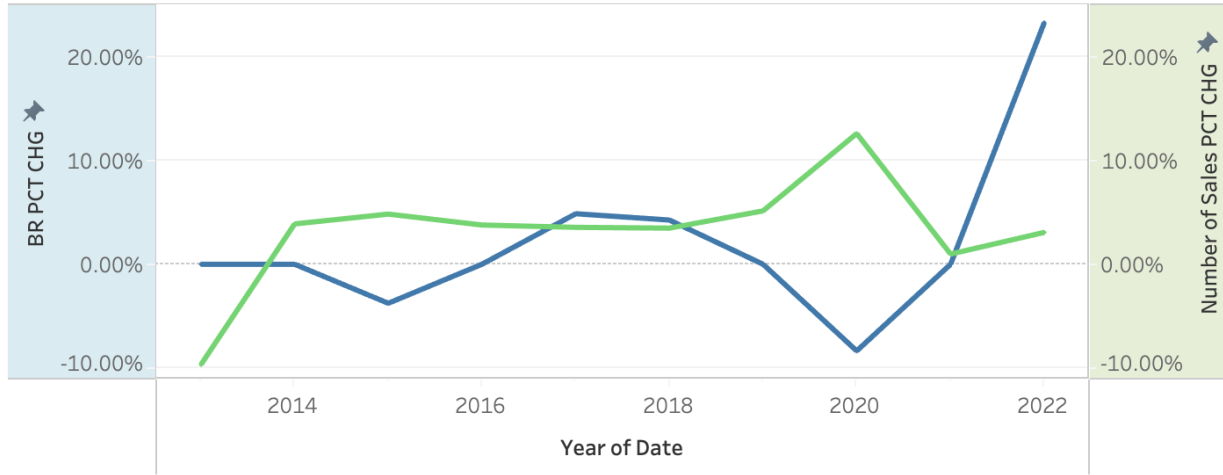


Bank Rate & Number of Sales

Is there a correlation?

Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank Rate

Bank Rate & Number of Sales: Yearly Percentage Change



With the number of yearly home sales, there is more of an **immediate inverse correlation** with Bank Rate

Bank Rate  = Number of Sales 

And vice versa

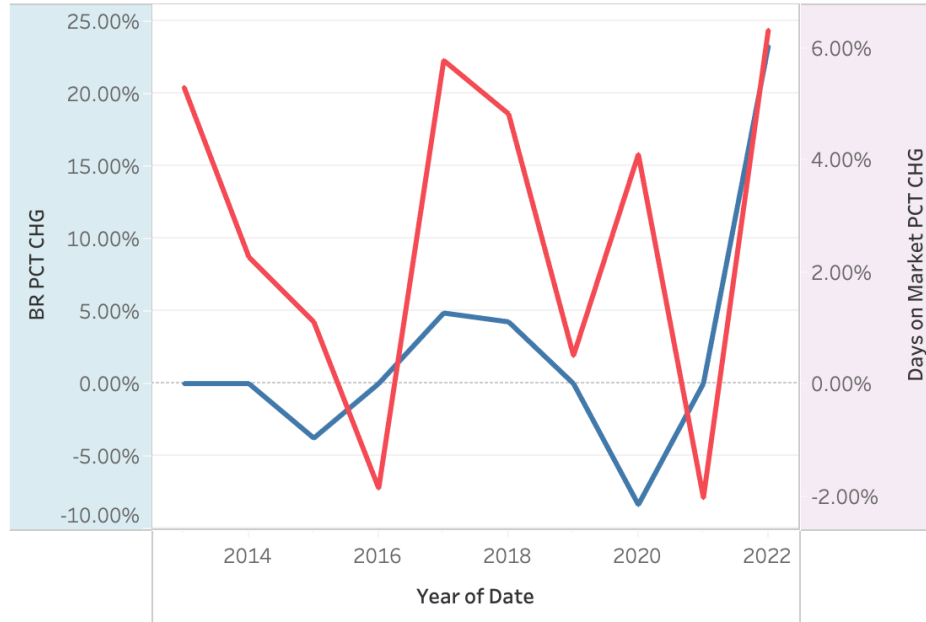
Buyers are more active when bank rates are lower.

Bank Rate & Number of Days on Market

Is there a correlation?

Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank Rate

Bank Rate & Days on Market: Yearly Percentage Change

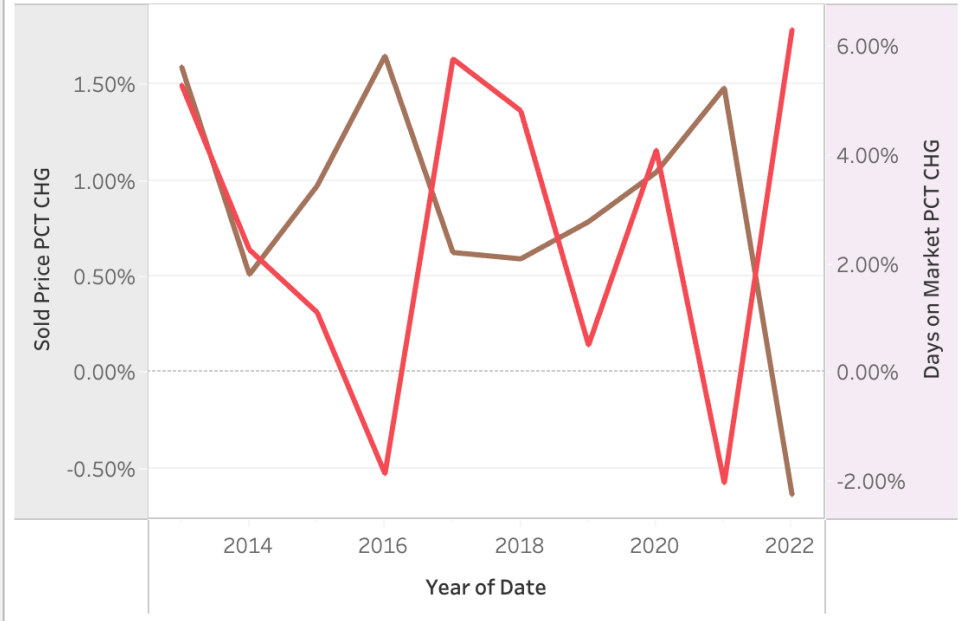


Though there are some moments of correlation – there is **no long term** trend that looks to fit.

However, a trend starts to
become a bit more noticeable
when compared with the yearly
Sold Price changes.

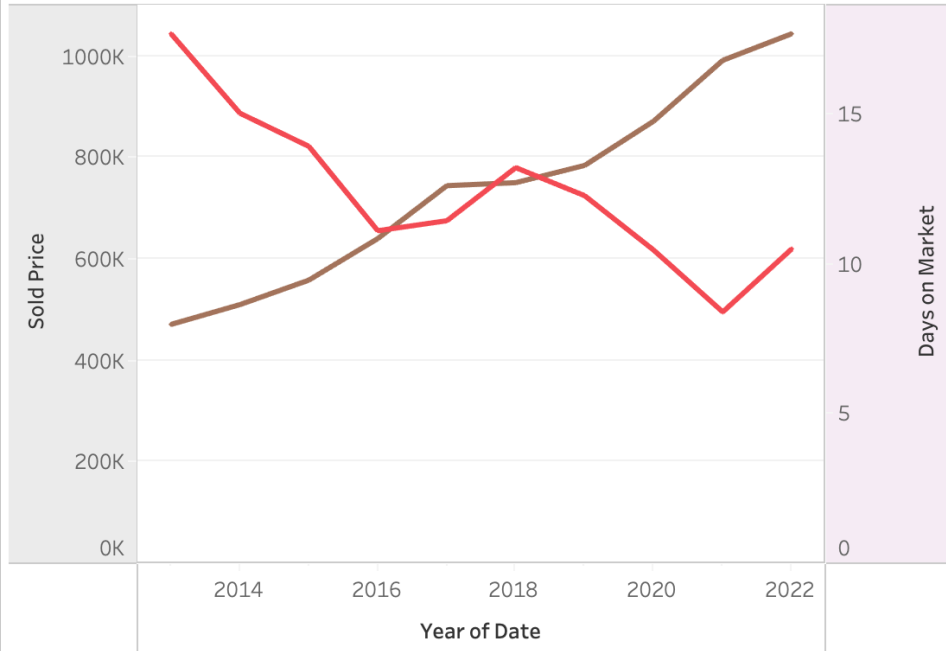
Acronyms: **PCT** = *Percent*; **CHG** = *Change*; **BR** = *Bank Rate*

Sold Price & Days on Market: Yearly Percent Changes



Acronyms: **PCT** = Percent; **CHG** = Change; **BR** = Bank Rate

Sold Price & Days on Market: Yearly Averages



Finally, a more apparent relation exists when looking at the **averages** of both.

We're presented with an **inverse correlation** between Sold Price and Days on Market averages.

Bank Rate Inherent effects

Sold Price

Home price follows a **steady trend**

Rate of growth is **affected** by Bank Rate

Higher Bank Rates **slow the growth** of prices, even bringing them down in extreme cases

Number of Sales

Inverse of Bank Rate

Higher Bank Rates cause volume of sales in the market to **decrease** & vice versa

Days on Market

No immediate relation with Bank Rate.

It is more affected by the **average sold price**.

Conclusion:

The *Bank Rate* is a good indicator for the direction of the Real Estate market.

You now have a **solid foundation** in understanding how
Bank Rate change trends can affect the real estate
market in Toronto.

Tracking trend changes **can empower you** to make
informed decisions.