

# **Residential Resale Trend Analysis – Peel Region**

**Zhicheng Zeng**

**August 2019**

## TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>2</b>
<b>MAJOR POLICY CHANGE AFTER 2015 .....</b>	<b>2</b>
<b>LEVEL OF RESIDENTIAL RESALE ACTIVITIES .....</b>	<b>5</b>
OVERVIEW .....	5
MONTHLY CHANGES.....	5
COMPARING PEEL WITH THE GTA .....	8
<b>CHANGE IN AVERAGE PRICES.....</b>	<b>9</b>
OVERVIEW .....	9
MONTHLY CHANGES.....	10
COMPARING PEEL WITH THE GTA .....	12
<b>CHANGE BY MARKET SEGMENT.....</b>	<b>13</b>
MONTHLY CHANGES.....	13
CHANGES IN THE CONDO APARTMENT MARKET .....	15
<b>CHANGE IN HOUSING AFFORDABILITY BY MARKET SEGMENT IN PEEL .....</b>	<b>16</b>
CHANGE IN AVERAGE PRICES .....	16
COMPARING INCREASE IN HOUSING PRICE WITH CPI AND WAGES.....	17
MARKET SHARE OF EACH TYPE.....	18
AVERAGE INCOME AFFORDABILITY IN PEEL.....	18
MEDIAN INCOME AFFORDABILITY IN PEEL.....	19
<b>CONCLUSION .....</b>	<b>20</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>22</b>

## INTRODUCTION

The residential resale market represents an important part of the residential construction sector. While changes in this market does not reflect changes in the new housing market, it is a good barometer of such changes. Since the 2008/09 economic downturn, a number of measures have been put in place to reduce observed risks in the Canadian and Ontario housing sector. This paper seeks to analyse changes in the residential resale markets of Peel Region and the Greater Toronto Area (GTA) particularly since 2015. Prior to December 2015, there were no significant variations in year-over-year changes in the residential resale market of the Region of Peel and the broader GTA market.

## MAJOR POLICY CHANGES SINCE 2015

Time	Changes	Reason
Dec-15	A doubling the minimum down payment for insured high-ratio mortgages to 10 per cent from 5 per cent for the portion of a home's value from \$500,000 to \$1-million.	Reducing exposure of CMHC from high risk borrowing
Oct-16	Expanded mortgage rate stress test to all new insured mortgages, including buyers with 20% or more in down payment. This is based on a mortgage interest of about 4.7%.	Reduce or eliminate high risk borrowers from the market
	Buyers spending no more that 39% of income on home carrying costs and Buyers Total Debt Service (TDS) ratio must not exceed 44%	
	"Low ratio" insurance mortgages must have amortization periods of 25 years or less, and less than \$1 million in value	Another de facto increase in interest rates
	As of 2016-year, capital gains tax on primary residence is still waived, but the sale of the primary residence must be	

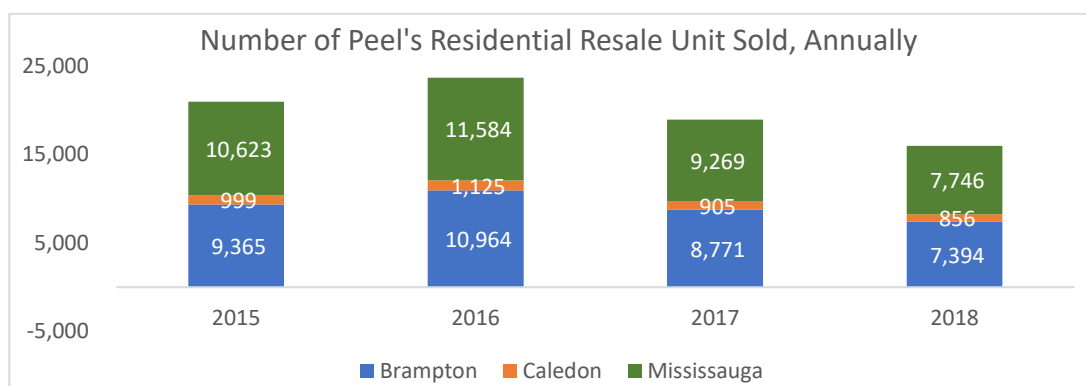
	reported at tax time to the Canada Revenue Agency.	
	The government is launching consultations on lender risk sharing.	
Apr-17	<b>Rental housing</b>	
	Expanding rent control to all private rental units.	
	Introduce legislation to standardize language in rental leases and make other changes to the Residential Tenancies Act	
	Making sure multi-residential apartment buildings are charged property taxes at similar rates to other residential properties	
	A \$125-million program over five years “to further encourage the construction of new rental apartment buildings”	
	<b>Foreign buyers and speculation</b>	
	Introduction of a 15-per-cent “Non-Resident Speculation Tax” in the Greater Golden Horseshoe region	Reduce or eliminate influence of foreigners on local housing prices
	Partnering with the Canada Revenue Agency to strengthen reporting requirements and make sure taxes are paid on real-estate purchases and sales	
		Increase in the carrying cost of multi-residential rental apartments and condos.
	Working to understand and tackle real-estate practices that allow “paper flipping” and other speculation	
	Reviewing rules for real-estate agents to “ensure that consumers are fairly represented”	

	<b>Vacancy tax</b> Ontario is introducing legislation to let Toronto “and potentially other municipalities” introduce vacancy taxes	
	Other changes	
	Create new market housing and affordable-housing units with surplus provincial land	
	Creating a “Housing Supply Team” to identify obstacles to housing developments and work with developers and municipalities to address them	
Jan-18	On Jan. 1, 2018, Canadians getting, renewing or refinancing a mortgage might have to prove that they would be able to cope with interest rates substantially higher than their contract rate.	
	New rules by Canada’s federal financial regulator announced in October 2017 mean that even borrowers with a down payment of 20 per cent or more will now face a stress test, as has been the case since January of 2017, for applicants with smaller down payments who require mortgage insurance.	
	<b>Property scalpers’</b> The stress test means that financial institutions will vet your mortgage application by using a minimum qualifying rate equal to the greater of the Bank of Canada’s five-year benchmark rate or their contractual rate plus two percentage points.	

## LEVEL OF RESIDENTIAL RESALE ACTIVITIES

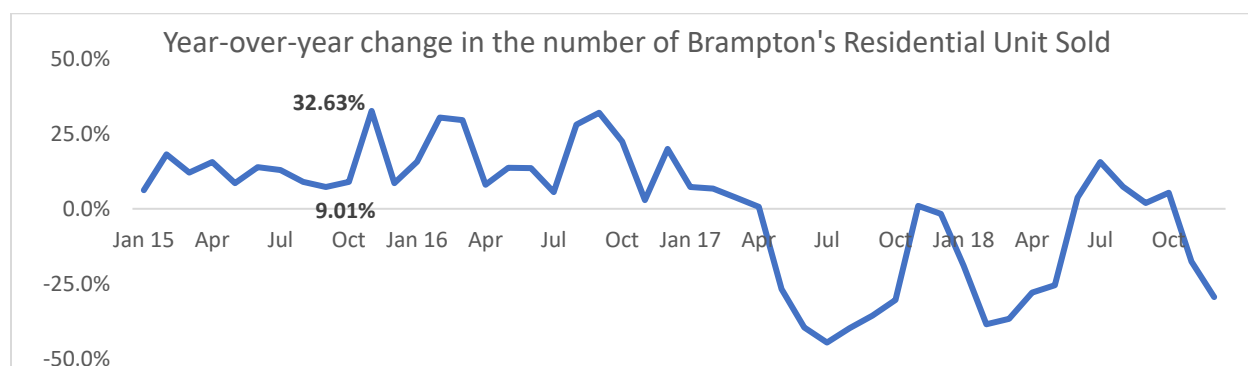
### Overview

In 2015, a total of 20,987 residential resale units were sold in Peel Region, representing an annual increase of 8.0 per cent. This was above the annual average growth of 2.1 per cent observed in the preceding 13 years. In 2016, the succeeding year, growth accelerated further to 11.78 per cent reflecting higher sales in all three Peel municipalities – The city of Mississauga (12.8 per cent), the City of Brampton (12.61 per cent) and the Town of Caledon (9.04 per cent). Residential resale activities continued to increase into the first quarter of 2017 but with a new round of housing measures in April 2017, the number of resale units sold plummeted throughout the remainder of the year resulting in a 20.0 per cent decline for 2017. The number of residential resale units sold fell further in 2018, down 15.6 per cent to 15,996 units.

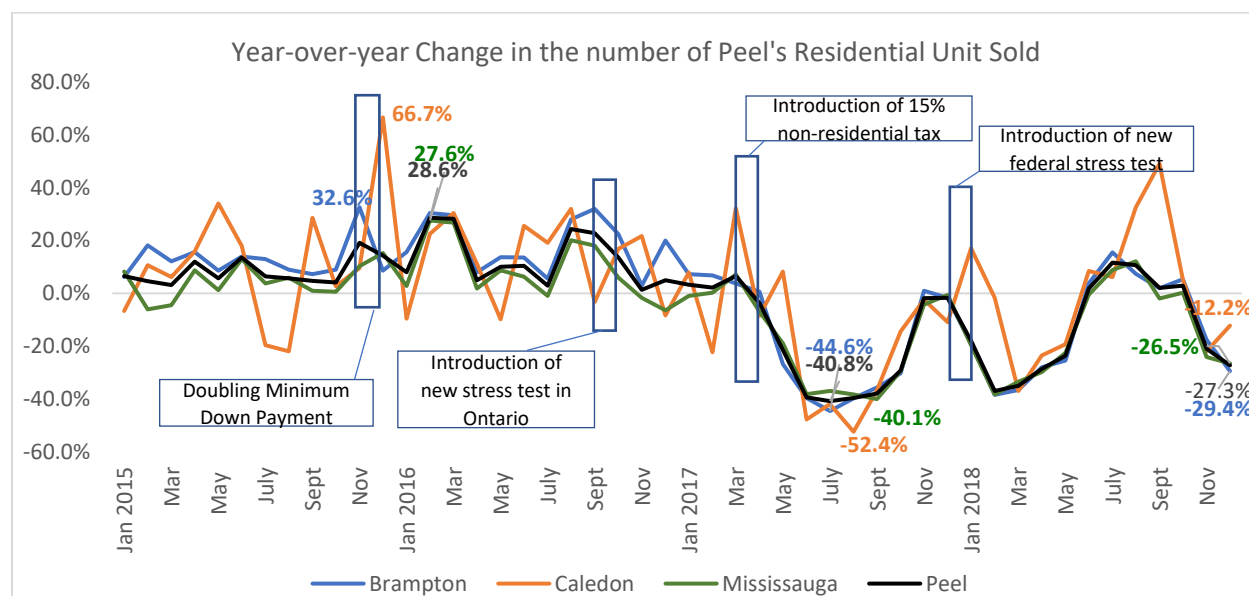


### Monthly Changes

When analysed on a monthly basis, the response of the market to policy changes were more pronounced. In November 2015, one month before the down payment for insured high-ratio mortgages was doubled, the number of residential units sold increased dramatically across the Region of Peel, probably suggesting that participants increased activities to avoid the impact of the impending new regulations. The year-over-year change in the Region increased 19% compared to a 4% registered in the preceding month. Brampton recorded the most significant acceleration in the rate of increase, moving from 9 per cent in October 2015 to 32.6 per cent November 2015, the highest rate for Brampton between 2015 and 2018.

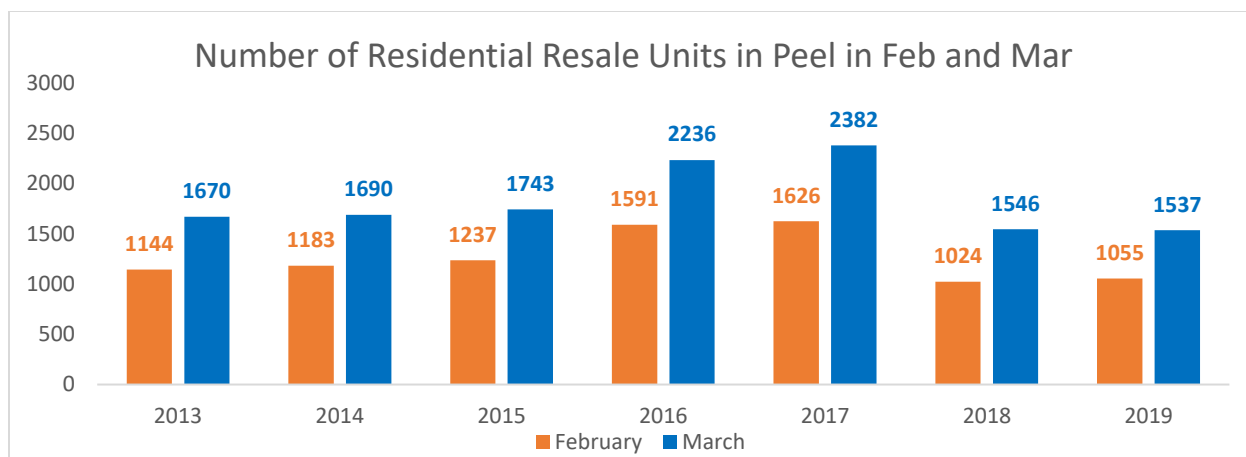


After the policy was put in effect, the change in Peel's residential resale market moderated. The year-over-year change in sales dropped from 19.2 per cent in November 2015 to 7.9 per cent in January 2016 underpinned by deceleration in the Cities of Mississauga and Brampton. On the other hand, while the Region was showing a deceleration in growth, a 66.7 per cent year-over-year increase was observed in Caledon in December, compared to 9.5 per cent in November. Changes in the Town of Caledon continued to exhibit changes which did not directly coincide with Peel's overall market trend through to 2018. Caledon's market seems to have a 1-2 months lag in policy response compared with Brampton and Mississauga.



Despite the new measures in 2016, activities in Peel's residential resale market continued to increase. Relatively high year-over-year changes were also observed in February and March 2016, as reflected in increases between 20 per cent and 30 per cent across the Region for both months. When viewed against the volume of Peel's residential resale activities in February and March between 2013 and 2019, those changes were significantly higher than in 2016 and 2017. This suggests that the policy response to the November 2016 housing measures<sup>1</sup> on the activities in the residential resale market in the Region were negligible.

<sup>1</sup> Expanded mortgage rate stress test to all new insured mortgages, including buyers with 20% or more in down payment. This is based on a mortgage interest of about 4.7%.



Activities on the housing resale market in Peel remained relatively stable in the next few months until the introduction of new measures (including the 15 per cent non-residential tax) in April 2017. With the introduction of another round of new measures in April 2017, a dramatic and more sustained decline in residential resale market activities was observed in Peel Region (and the Greater Toronto Area). The year-over-year change of number of resale activities showed sustained deceleration from 6.5 per cent in March 2017 to -40.8 per cent in July 2017. Brampton and Mississauga showed the impact immediately in April and May, while it is hard to tell if the drop in Caledon in April was due to the tax since the sales in Caledon showed consistent fluctuations. For example, there was an increase in sales in Caledon May 2017, which was opposite to the trend in the Region. Activities in Caledon dropped significantly in June; a 55 per cent decline. The trend started reversing in September, and finally recovered to the same level as March in November 2017. This was the only Peel municipality where this occurred.

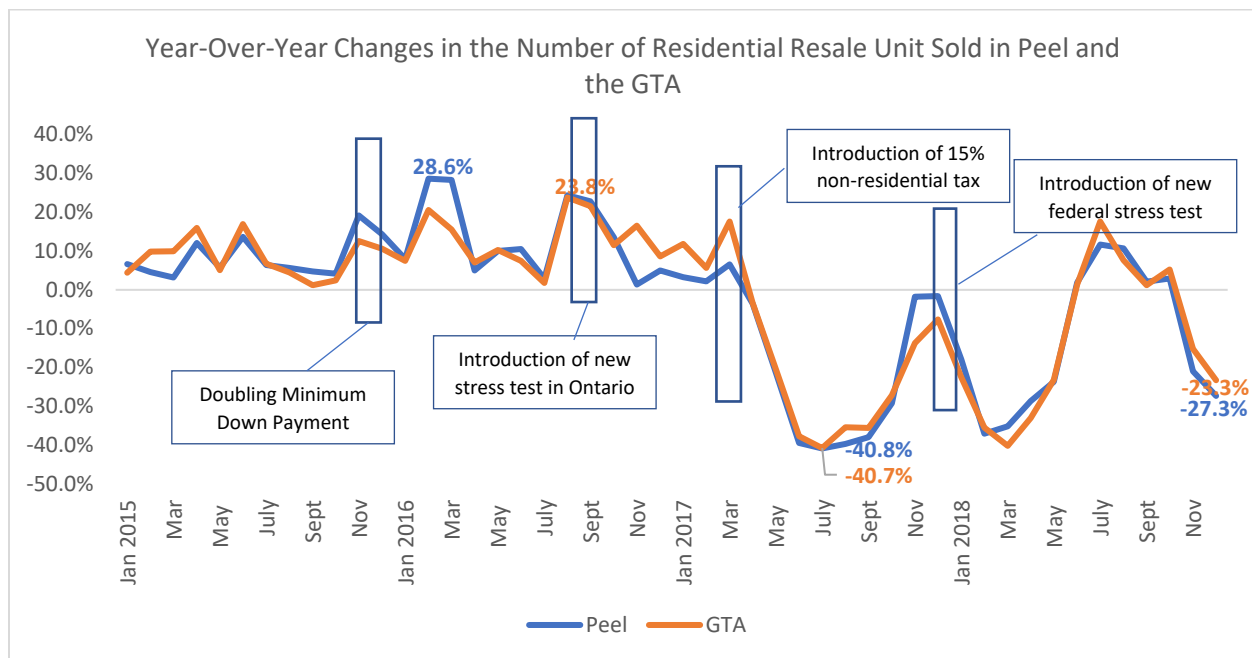
In January 2018, the new federal stress test was introduced. This constrained market activities in the Region as Peel's year-over-year change in number of sales dropped 38.6 per cent between December 2017 and February 2018. Caledon was the only municipality in the Region that registered an increase in January, continued its trend in December. In February 2018, it started following the decreasing trend in the Region. Brampton and Mississauga had similar changes; both registered a drop of around 35 per cent compared to the end of 2017. The rapid decreasing trend lasted for 3 months before it began recovering to the level in the end of 2017.

The message here is that activities on Peel's residential resale market responded to the policy change which took place in January 2018<sup>2</sup>. Then compare the year over year changes in December 2017, January and 2018. Recall that because of seasonality, you cannot compare month over month changes – unless you are comparing them with monthly changes in preceding periods.

<sup>2</sup> Borrowers with a down payment of 20% or more will now face a stress test. It means that financial institutions will vet your mortgage application using a minimum rate equal to the greater of the Bank of Canada's 5-year benchmark/contractual rate plus two percentage points.



## Comparing Peel with the GTA



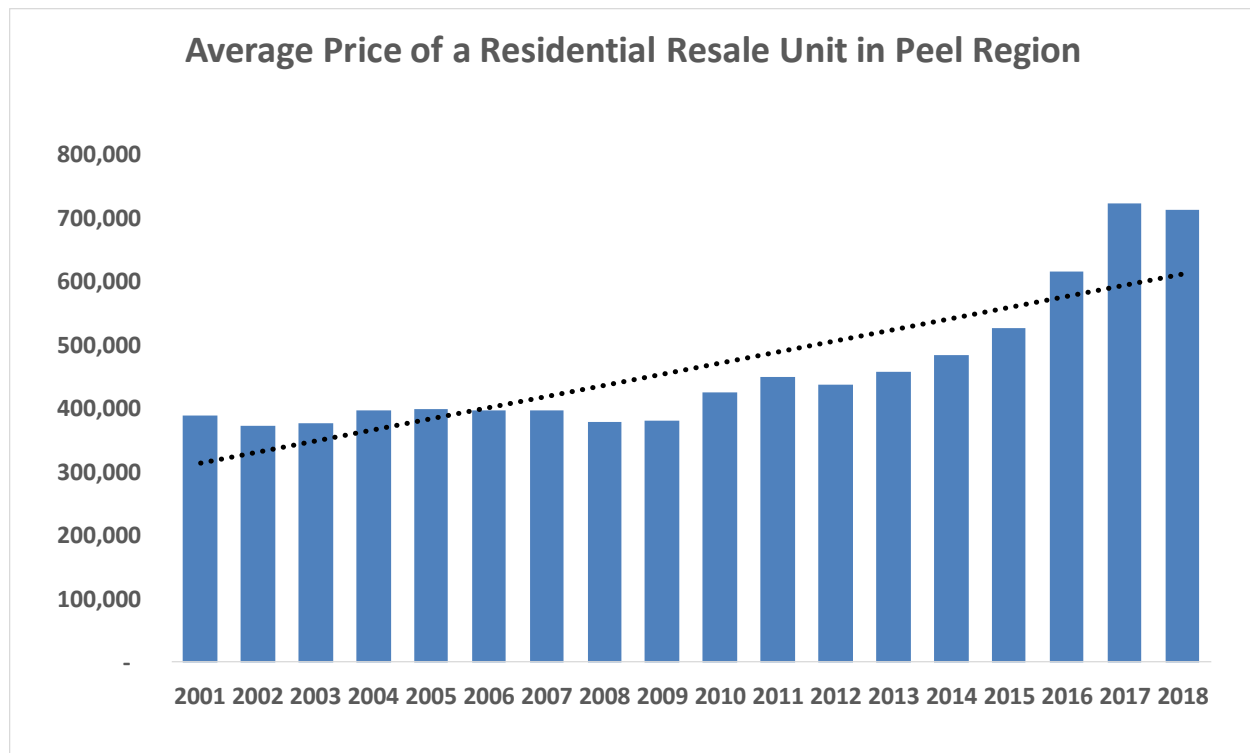
Comparing the trends with the GTA, for the policy in December 2015, changes showed similar patterns in both Peel and the GTA, but a little more pronounced in Peel before and after the December 2015 policy.

In August 2016, two months before the new stress test released in Ontario, both markets had a dramatic increase of 22 per cent. The GTA reached its highest year-over-year change in sales of 23.8 per cent in the period between 2015 and 2018. Peel reacted to the new stress test more significantly than the GTA, with a 21.5 per cent decline between September and November 2016 in Peel compared to GTA's 5 per cent decline.

The measures instituted in April 2017 (including the 15 per cent non-residential tax) effected significant declines in the markets of both Peel and the GTA. GTA had a more significant drop of 55.3 per cent compared to Peel's 47.3 per cent. Both geographies registered the lowest year-over-year change (in the period between 2015 and 2018) in July 2017. Year-over-year changes quickly recovered in both markets in late-2017, followed by another deep drop due to the new federal stress test in January 2018. The year over year change deteriorated again in early 2018 with the introduction of the stress test.

## CHANGE IN AVERAGE PRICES

### Overview

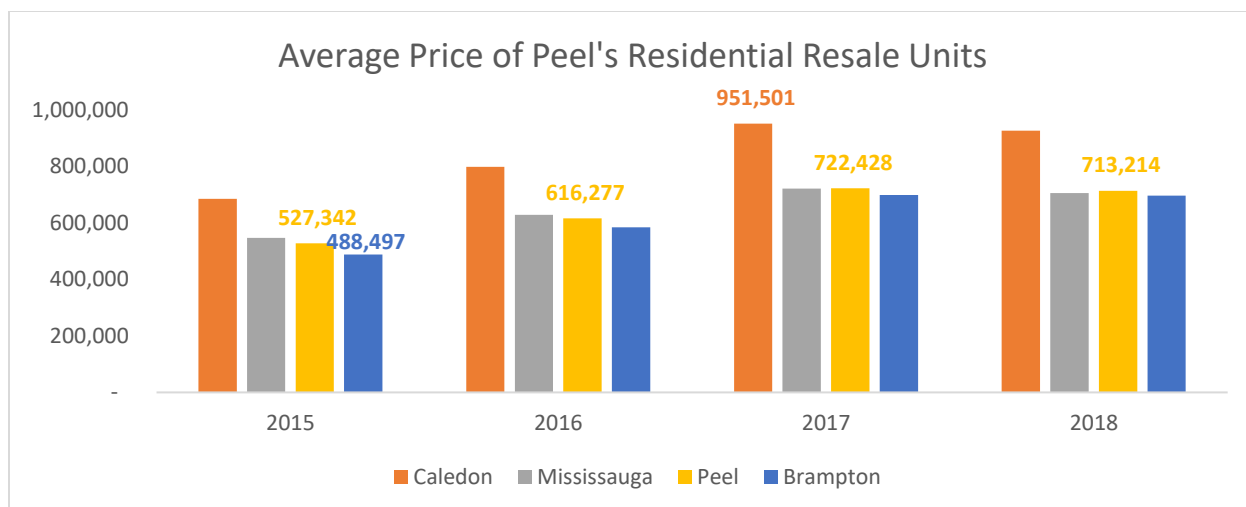


Over the past decade and a half, the average price of a residential resale unit in Peel Region has trended upwards. During the five-year period 2013 – 2017, there were sustained annual increases. This occurred despite numerous housing measures which were put in place over the period. The annual increases were particularly pronounced between 2015 and 2017.

The average price of a residential resale unit in Peel increased by 37 per cent between 2015 to 2017 underpinned by increases in Peel's three municipalities as follows:

- City of Brampton: 43.2 per cent;
- Town of Caledon: 38.8 per cent; and
- City of Mississauga: 32.1 per cent

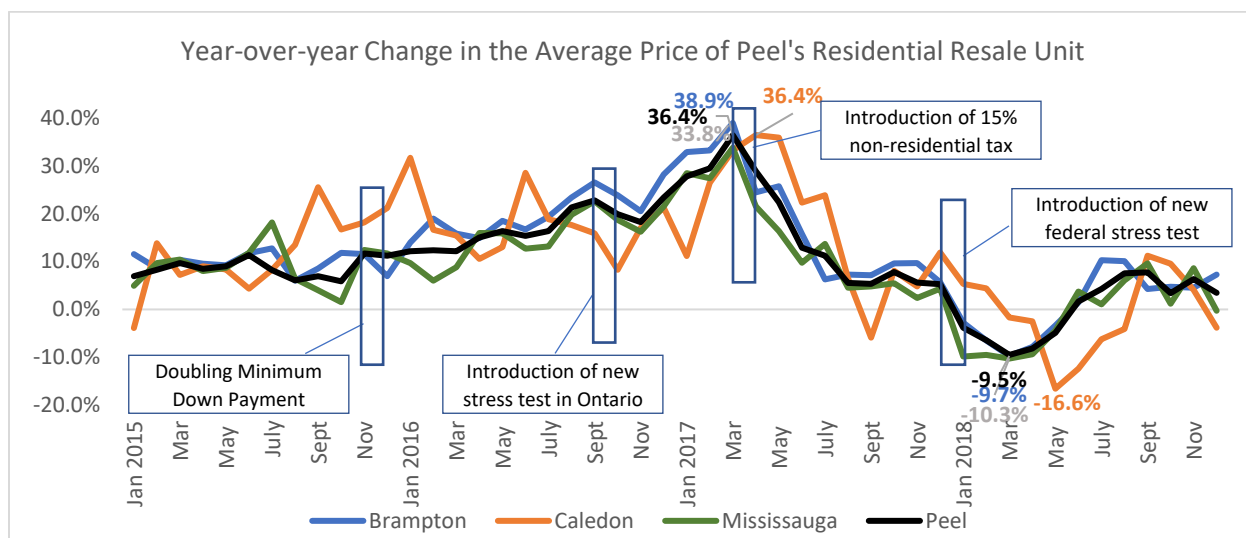
The sustained increase was arrested in 2018 as the market responded to measures instituted in April 2017.



The average price of Peel's residential resale units registered consistent increases during the two-year period 2015 and 2017, and slightly dropped in 2018. Caledon has the most expensive residential resale units in the Region throughout the period from 2015 to 2018.

## Monthly Changes

The price response of Peel's residential resale market to housing measures instituted over the past four years can be best analysed by looking at the year-over-year changes throughout the period.



There was no significant change in the year-over-year rate in the average price in the Region of Peel overall before the end of 2015. Caledon, compared to the rest of the Region, had a higher increase between August 2015 and January 2016.

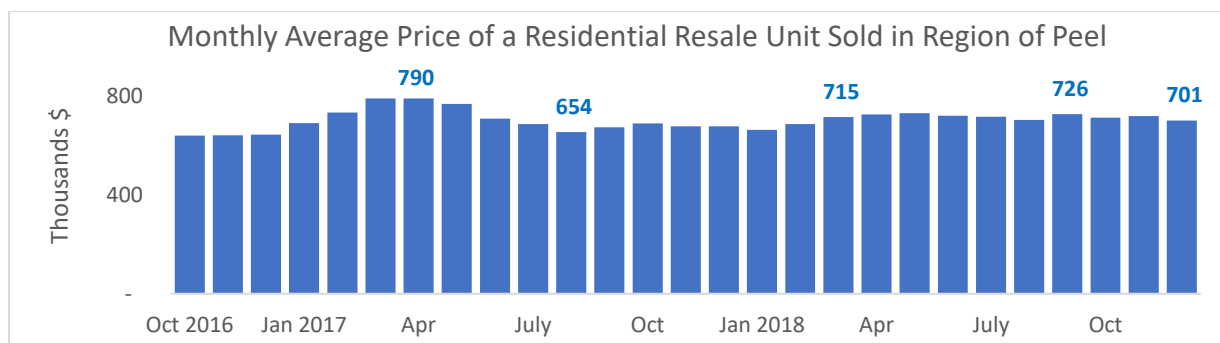
Year-over-year change in average price by municipality				
Month	Brampton	Mississauga	Caledon	Peel
Nov 2015	11.6%	18.18%	12.41%	11.7%
Dec 2015	7.0%	21.16%	11.70%	11.2%
Jan 2016	14.0%	31.7%	9.7%	12.1%
Feb 2016	19.0%	16.6%	6.0%	12.4%
Mar 2016	15.8%	15.5%	8.8%	12.1%

After the new policy was in effect in December 2015, the overall average price of a residential resale unit in Peel did not change significantly. Disaggregated by municipalities, the City of Mississauga registered a relatively high year-over-year change in price in December 2015 and January 2016 before decelerating in February.

In 2016, As mentioned above, the new stress test in October resulted in a slowing of the increase in average price observed across the Region, but the effect was not severe. The slowdown in the Region quickly reversed in November and started increasing rapidly.

A 7 per cent monthly increase in the year-over-year change in average price was observed in March 2017, a month before the policy of new non-residential tax in effect. Before that, the year-over-year change in price was increasing steadily, but not as fast as it was in March. Significant deceleration in the rate of increase was immediately following the implementation of new measures (including the non-residential tax) in April 2017. The year-over-year change in price decelerated more than 30 percentage points between March and August 2017. In this period, changes in the Cities of Brampton and Mississauga drove the changes in the Region of Peel. The year-over-year change began to be stabilized in September. There was not an immediate price impact in the Town of Caledon, and prices there continued its increasing trend between 2015 and 2019 to reach its highest rate of 36.4 per cent in April 2017. Its year-over-year change in average price finally began decelerating in June 2017, and at a faster rate than the other municipalities until September 2017.

The price response of Peel's residential resale market was also evident when the federal stress test became effective in January 2019. The year-over-year change in average price in Peel had dropped to 9.5 per cent from in the same month. However, this price effect did not last long, with two of three Peel municipalities registered had the year-over-year changes similar to levels observed before the new policy.

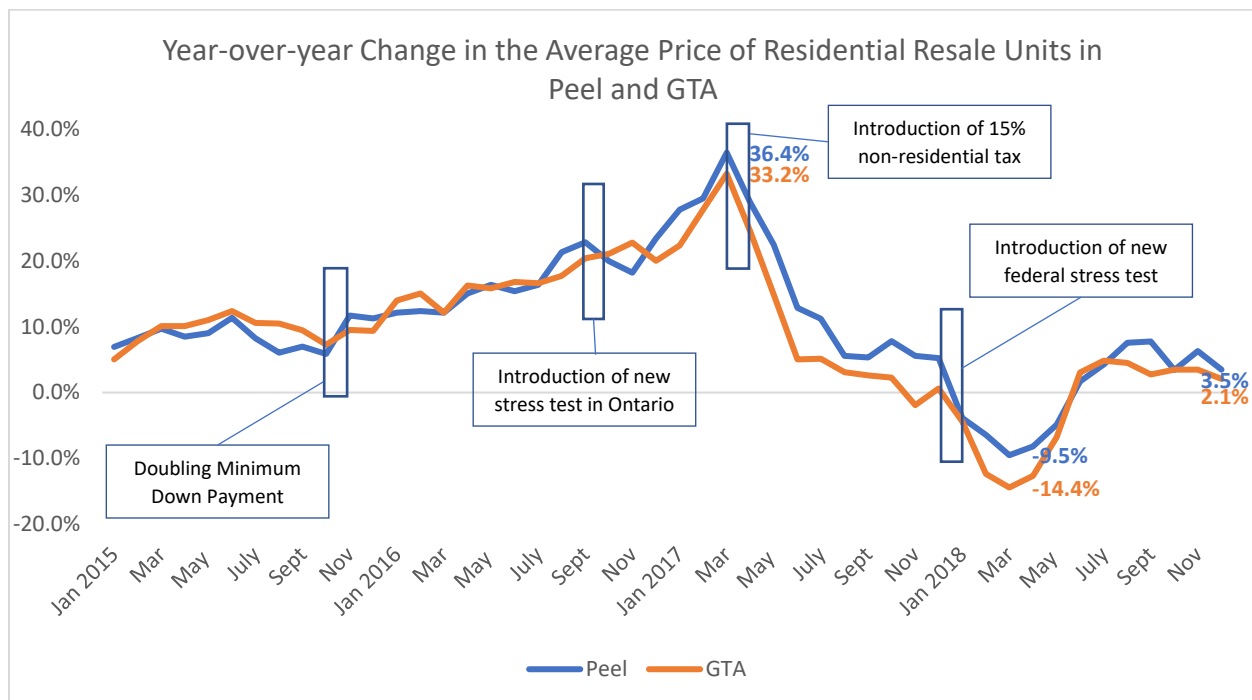


## Comparing Peel with the GTA

The trends of GTA and the Region of Peel were identical in 2015 and 2016. In 2017, the new measures had a more extensive effect on Price in the GTA than in Peel. There was a drop of 28 per cent in GTA's year-over-year change in the average price between March and June, compared to 23.5 per cent in Peel in the same period.

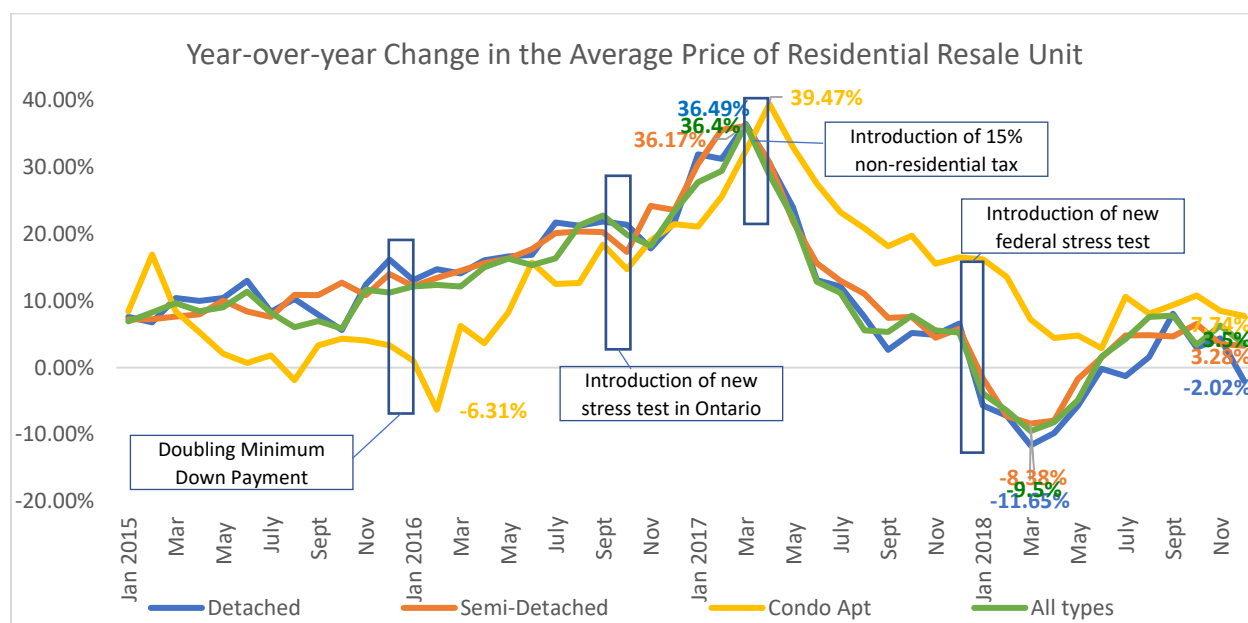
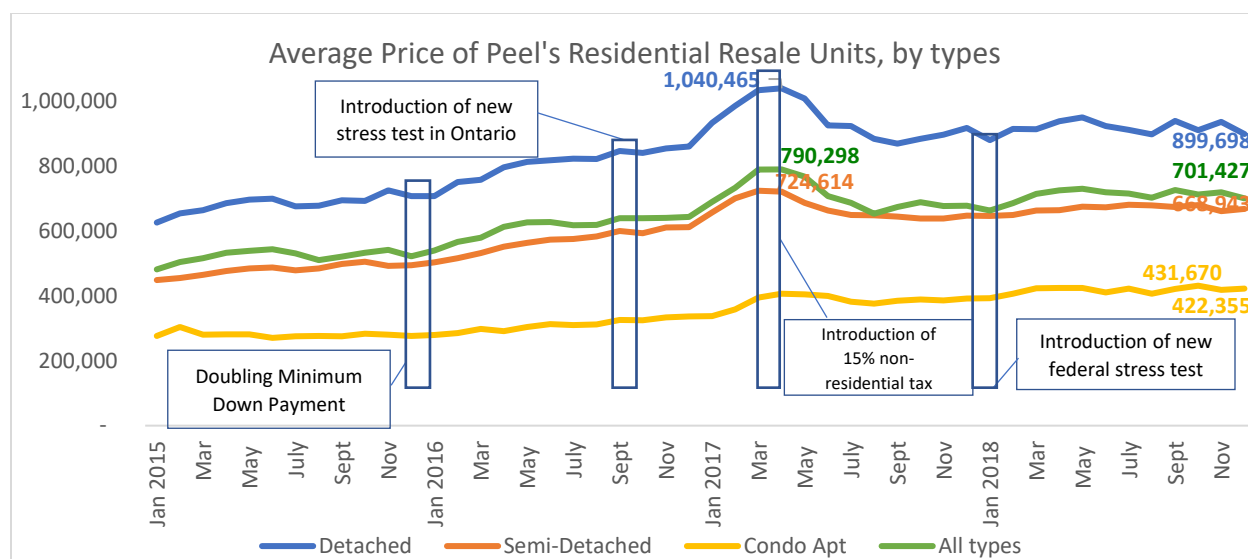
There were no significant differences before and after the introduction of new federal stress test in January 2018.

Overall, the trends are identical in both markets, with the GTA had a higher year-over-year change in 2015 and 2016, and Peel had a higher year-over-year change in 2017 and 2018.



## CHANGES BY MARKET SEGMENT

### Monthly Changes



Prior to December 2015, most types of residential resale units except Condo Apartment, increased steadily. The price of condo apartments remained between \$270,000 and \$280,000 in 2015 except in February when it reached over \$300,000 with a 17 per cent year-over-year increase. The increase for condo apartments was short-lived and the year-over-year change began dropping until August 2015.

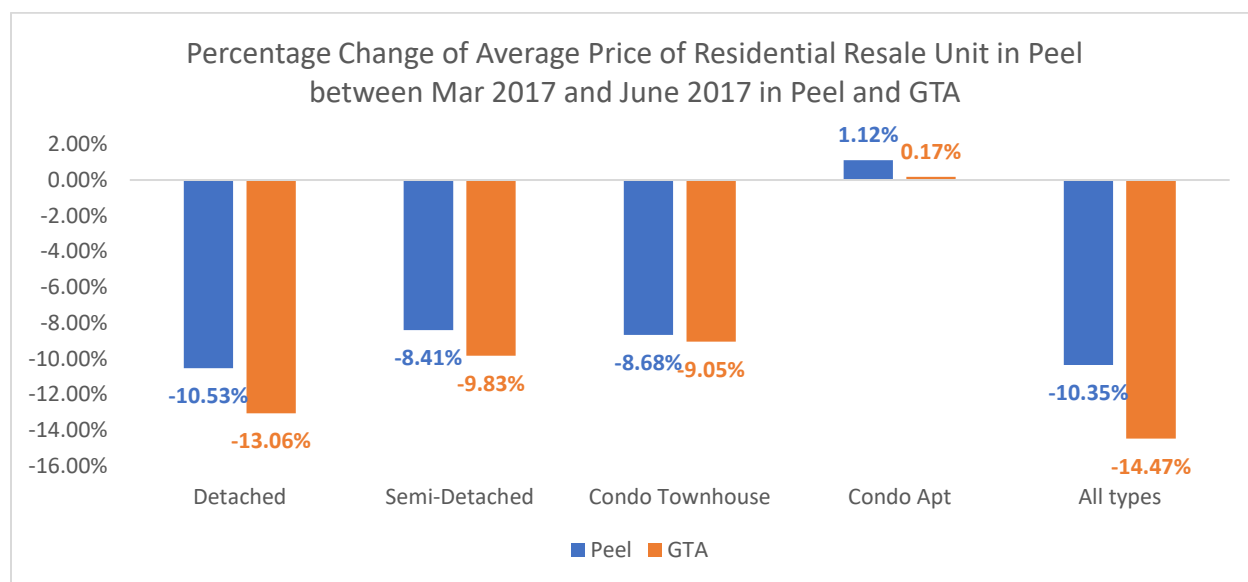
The policy of doubling minimum down payment in December 2015 had negligible effect in housing types other than Condo Apartments. Condo prices started decelerating again until

reached -6.31 per cent in 2016, the lowest in the period between 2015 and 2018. The year-over-year change in price finally started to accelerate rapidly in March 2016.

Before the new stress test in Ontario introduced in October 2016, Condo Apartment's year-over-year change in average price was approximately the same level as the other types, while the rest of the market segments increased slowly. The new Ontario stress test brought reduced prices in the market in October 2016 for all housing types. The effect only lasted one month for most of the types except detached, which continued dropping in November 2016.

Average prices in all the segments of the market started increasing more dramatically between December 2016 and March 2017. In March 2017, most of the segments except Condo Apartment reached their highest year-over-year change in price in the 4-year period between 2015 and 2017.

The new measures including the non-residence tax in April 2017 was effective in all segments of Peel's residential resale market, although the impact on Condo Apartment was delayed and less severe. The segments other than Condo Apartment had a decline of 30 per cent in April 2017, while Condo Apartment continued its increasing trend and reached its highest year-over-year change in price between 2015 and 2018 in April 2017.

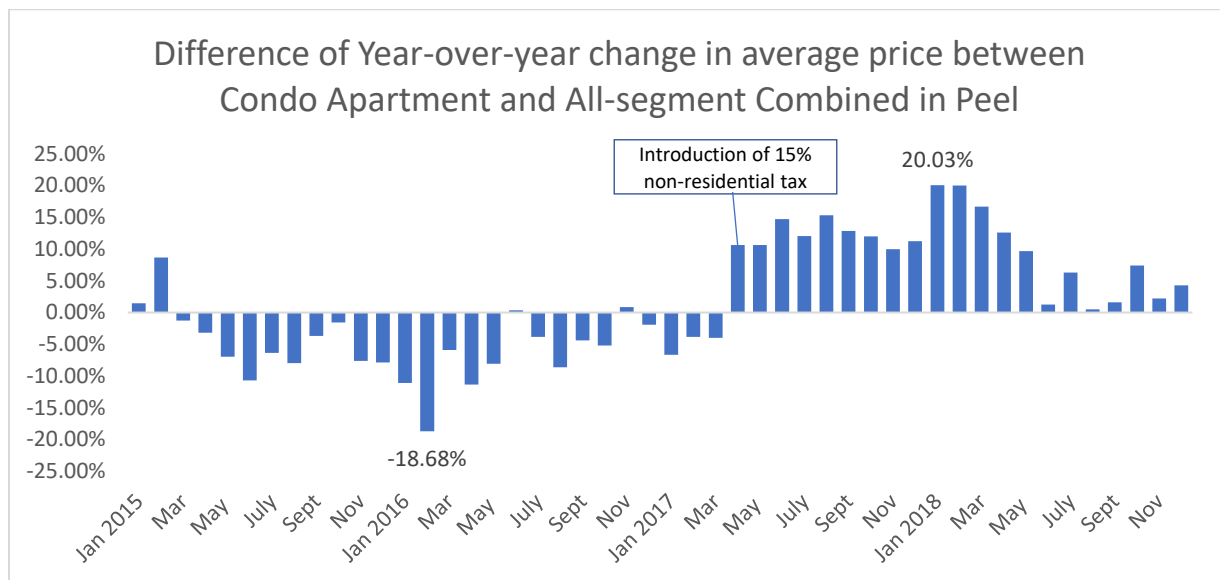


Looking at the absolute average price change, Condo Apartment was the only segment that had an increase in the 4-month period between March and June 2017, while all the other segments had around 10 per cent drop in both Peel and GTA. Detached, at the same time, had the fastest drop rate.

The decline in the year-over-year change of price for all segments slowed down after June 2017 and became stable by the end of 2017. The federal stress test in January 2018 had extensive effect on all types except Condo Apartment, resulting in a deep drop across the affected segments. Condo Apartment did not see a drop until March 2018, when the other types reach

their lowest year-over-year change in average price between 2015 and 2018. The trend in the year-over-year change in price reversed and increased rapidly after reaching the lowest for most segments, but the year-over-year change in price for Condo Apartment remained stable.

### Changes in the Condo Apartment market segment

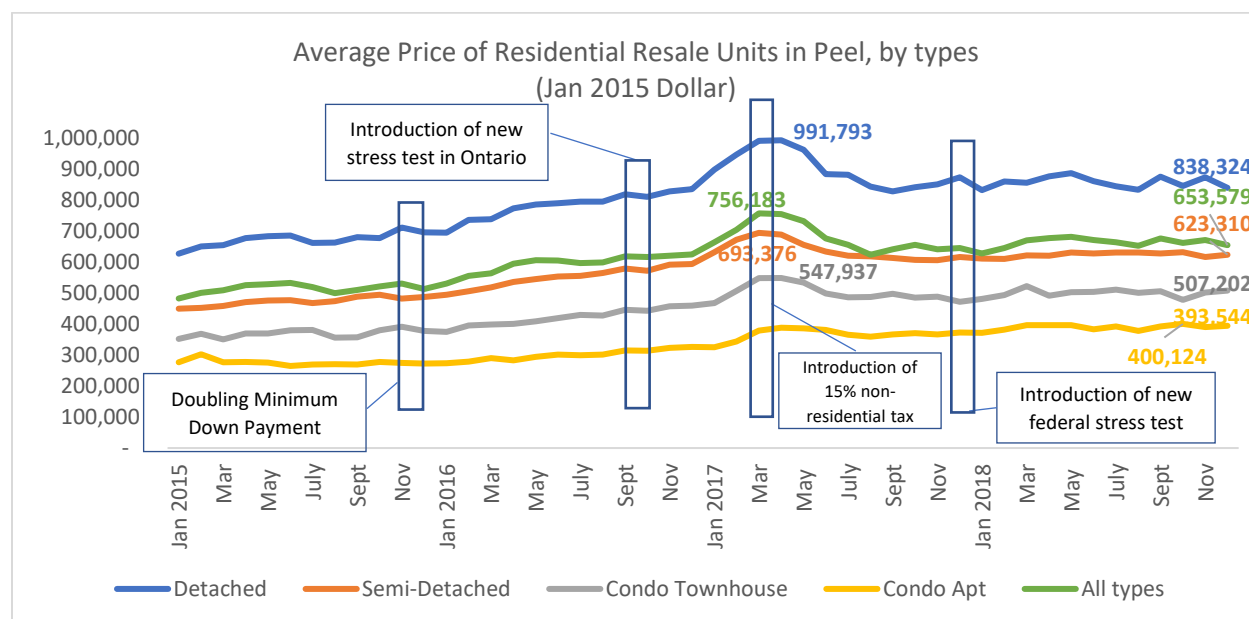
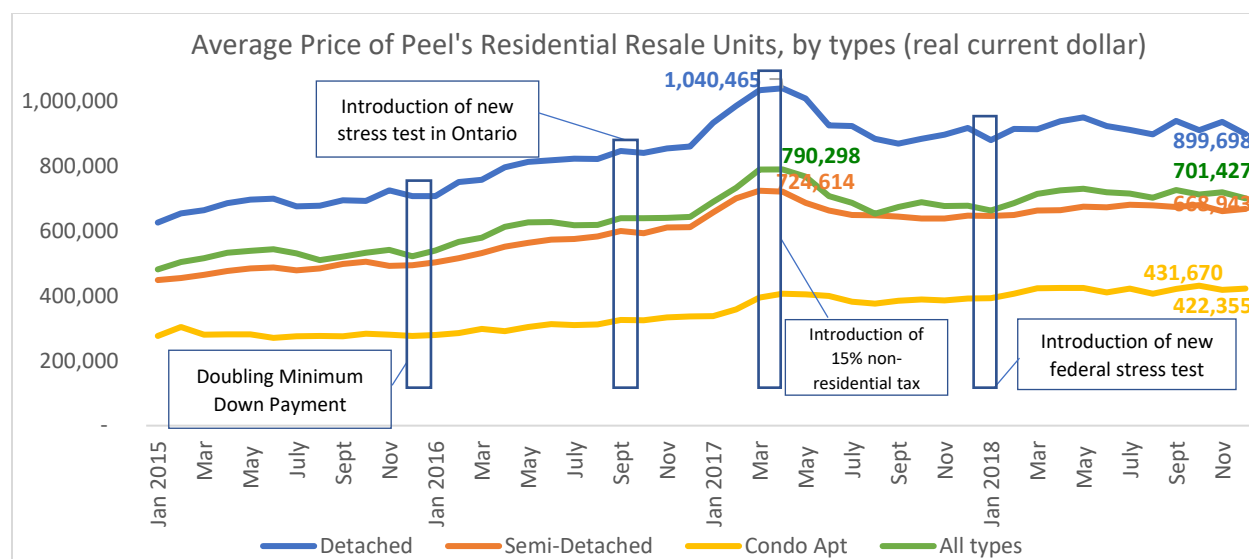


Overall, the segments other than Condo Apartment had similar trend through out the 4-year period between 2015 and 2018, while Condo Apartment's price increased slower than the other segments between March 2015 and March 2017, and significantly faster between April 2017 and May 2018. This suggests that the impact of the non-residential tax was more pronounced in all segments of the market, except Condo Apartment.



## CHANGE IN HOUSING AFFORDABILITY BY MARKET SEGMENT IN PEEL

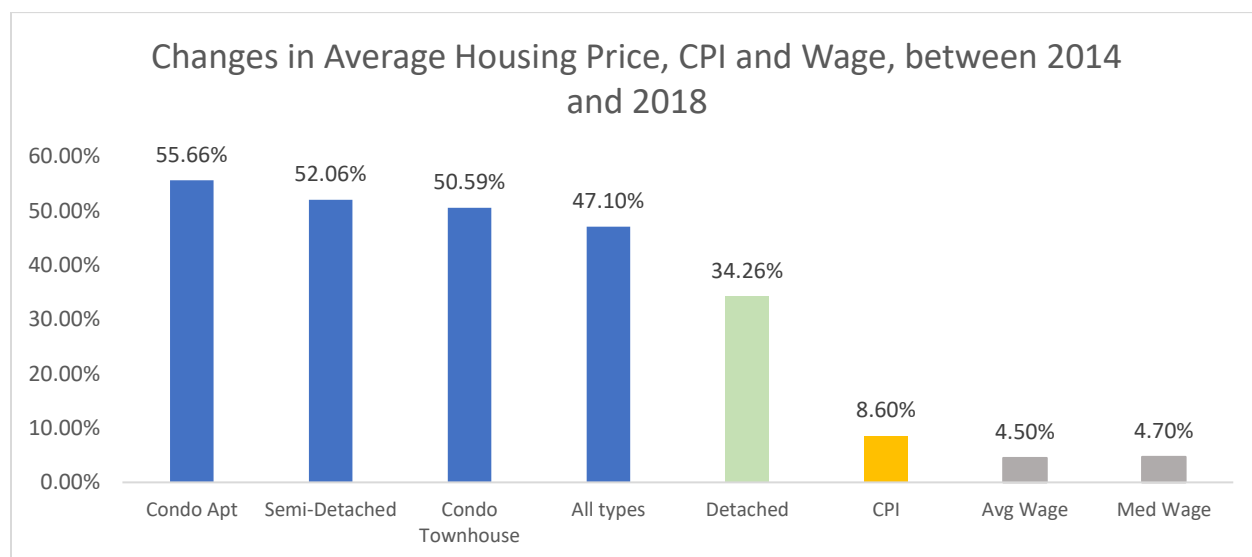
### Change in average prices



Change in average price from Jan 15 to Dec 18, by types		
Housing Type	Current Dollar	Jan/15 Dollar
Detached	54.52%	43.98%
Semi-Detached	59.68%	48.78%
Condo Townhouse	57.75%	46.99%
Condo Apt	65.63%	54.33%
All types	55.62%	45.01%

Ignoring the effect from inflation, Condo apartments increased by 54.33 per cent, the highest among all types. Detached increased by 44 per cent, which was the lowest.

### Comparing increase in housing price with CPI and Wages



Between 2014 and 2018, the average price of Peel's Residential Resale Units increased 47.10 per cent. Detached houses had the lowest increase in the Region, at 34.26 per cent. Condo Apartment, on the other hand, had the most significant increase of 55.66 per cent over five years. Semi-detached houses registered the second-strongest increase on 52.06 per cent. This segment of the market is now more unaffordable.

While the price of housing in Peel and the GTA was increasing at relatively high rates between 2014 and 2018, the changes in inflation as measured by the Consumer Price Index (CPI) was relatively low at 8.6 per cent. Over the same time period, average wage rate in Peel only increased 4.5 per cent while Peel's median wage rate increased by 4.7 per cent. This means that the increase in the average price of residential resale units in Peel was more than five times the increase of CPI, and ten times the increase of median wage over the five years 2014 - 2018. This means that housing became much less affordable over the period of the time, especially condo apartments which was the most affordable in 2014.

## Market share of each type

Market Share each type in Peel						
Year	Detached	Semi-Detached	Condo Apartment	Condo Townhouse	Attached/Row/Townhouse	Other
2015	45.78%	17.03%	16.42%	12.50%	7.49%	0.78%
2016	45.44%	17.26%	17.00%	11.56%	7.77%	0.97%
2017	43.64%	16.43%	19.13%	11.73%	8.41%	0.66%
2018	43.96%	15.64%	19.06%	11.71%	9.02%	0.62%

Over the period 2015 – 2018, there were some shifts in the composition of the units sold on Peel's residential resale market. The strongest increase in market share was observed in condo apartment market while the detached and semi-detached market recorded the most significant loss of share.

Between 2015 and 2018, the market share of condo apartment increased significantly, with a slight increase in the market share of attached/row/townhouse. Meanwhile, detached house has its market share dropped by 2 per cent.

## Average Income Affordability in Peel

Year	Average Household Income	Housing Affordability Threshold	What house type can a average-income afford
2015	\$104,466	\$416,309	Attached/Row/Townhouse (Avg. \$407,829) Condo Townhouse (Avg: \$377,497) Condo Apartment (Avg: \$279,799)
2016	\$106,035	\$423,761	Condo Townhouse (Avg: \$377,497) Condo Apartment (Avg: \$310,303)
2017	\$108,017	\$427,754	Condo Apartment (Avg: \$387,106)
2018	\$110,164	\$420,020	Condo Apartment (Avg: \$418,067)

*Source: Regional Planning and Growth Management, Public Works*

Looking at the affordability based on average income in the Region: In 2015, a Peel household with average income can afford not only condo townhouses and condo apartments, but also an attached/row/townhouse.

As of 2016, they can no longer afford attached/row/townhouses. Condo Apartments became the only housing type an average-income family can afford but it is also becoming less affordable. In 2018, the stress test and the higher interest rate in 2018 has made the situation worse, as it resulted in the decrease in the housing affordability threshold, while the condo apartment price continued to go up. As a result, they can barely afford an average condo apartment, with only a \$2,000 difference between their affordability threshold and the average price of a condo apartment.

### Median Income Affordability in Peel

Year	Median Household Income	Housing Affordability Threshold	What house type can a median-income afford
2015	\$86,233	\$343,648	Condo Apartment (Avg: \$279,799)
2016	\$87,258	\$349,800	Condo Apartment (Avg: \$310,303)
2017	\$89,164	\$353,096	None
2018	\$90,937	\$346,712	None

*Source: Regional Planning and Growth Management, Public Works*

In 2015 and 2016, half of the Peel's households could only afford condo apartments. Starting in 2017, a more than a half of Peel's households could no longer afford an average condo apartment, which is the cheapest housing type in the Region. The housing affordability threshold was \$34,000 lower than the average price of a condo apartment in 2017, and \$71,000 lower in 2018. This suggests that based on prices in Peel's residential resale market, it has become more challenging for more than half Peel's residents to afford a housing unit in Peel.

## CONCLUSION

### **Significant changes in Peel's residential resale market between 2015 and 2018**

Overall, activities in Peel showed minimal responses to most housing measures over the period 2015 - 2018 except for the measures in April 2017 and the stress test of 2018. This implies that those were the policies that addressed the issues that existed in Peel's non-residential housing sector.

#### 2015-2016: Minimal Responses

The overall response from doubling down payment for insured high-ratio mortgages in December 2015 was negligible on the activities in the residential resale market in the Region of Peel. The stress test in Ontario released in October 2016 brought down the number of resale units sold, but the market activities remained buoyant; the impact on the average price only lasted two months before it regained momentum and accelerated and finally reach the highest level in the four-year period (2015-2018).

#### April 2017: Non-residential tax resulted in intended effects, Condo Apartments became more popular

Intended effects were observed in the Region of Peel from the 15 per cent non-residential tax. Dramatic declines occurred across the Region immediately after it became effective. The only exception was in Caledon that did not had significant reaction until two months later. The difference in Caledon may indicate that market activities (including non-residential speculative activities) may have been minimal there, while it may have been more prevalent in the Cities of Brampton and Mississauga. Also, among all segments of the market, condo apartment showed minimum effect from this policy in both Peel and the GTA. An increase was also observed in terms of demand of Condo Apartments suggesting that buyers were adjusting preferences in response to the new market realities. Detached home activities cooled significantly, in terms of both level of sales and average prices suggesting that the characteristics of this market segment were addressed by the new policies.

#### January 2018: Federal stress test cooled down the market again

In January 2018, the federal stress test also cooled down the market in the Region, but it was only a short-term effect. Activities recovered quickly in the first-half of the 2018.

### **Housing affordability has been eroded over the period**

Over the five-year period of 2014 to 2018, the average price in Peel had increased by 47 per cent, compared to 8 per cent for CPI, 4.5 per cent in average wage and 4.7 per cent in median wage. Over the period, detached registered the lowest increase in price while condo apartment registered the most significant increase among all housing types in the market. Given the

differential in price changes in the house market and inflation and wage rates paid to Peel's residents, housing became much less affordable over the period.

## **ACKNOWLEDGEMENT**

I cannot express enough thanks to my co-worker at the Region of Peel, Judith Mcwhinney, for her continued support on editing this report; this report cannot be completed without the guide provided by her. I would also like to thank Peel Data Centre for providing data of housing affordability threshold in Peel. Last but not least, I would like to thank TREB for making the housing resale data easily accessible to write this report.