

Canadian housing – Logic behind the madness?

[Upbeat music]

[CIBC logo]

[Canadian housing – Logic behind the madness?]

[Benjamin Tal
Managing Director and Deputy Chief Economist
CIBC Capital Markets]

The big question is to what extent the Canadian housing market will continue with this kind of very strong activity? And the first question is why it's happening in the middle of a pandemic? And the answer, of course, is the asymmetrical nature of this recession, with all the jobs lost being low paying, rentals and therefore homebuyers found themselves in a position - and that's very important - that they were able to take advantage of what the recession can give you, namely low interest rates without the cost of a recession, vis-a-vis a broadly based increase in the unemployment rate. That's something that we have never seen before and led to this surge in home buying.

[Urban cityscapes]

Today, what we are seeing is another factor. Namely, interest rates are starting to rise. People are tweeting about the Bank of Canada moving. Bond yields are starting to move. Therefore, people are sensing that the window is closing and there is this sense of urgency to get into the market and basically, buy this house before it's too late. So, we are borrowing activity from the future.

[Aerial shot of a sprawling suburb. A bungalow with a 'for sale' sign in front of it. Aerial shot of a sprawling suburb in winter.]

And that's exactly why we see activity still accelerating at this stage of the game. That will slow down in the second half of the year as interest rates start rising and the future basically has arrived.

[Upbeat music]

[The impact of gifting]

Now, it doesn't mean that the housing market will derail. The opposite is the case. The fundamentals of the housing market are still very strong, and two things are happening that we have to understand. One is gifting. We have a situation in which one third – one third! – of homebuyers now are getting a significant gift from a family.

[Vancouver suburbs and city skyline. Aerial shot of a subdivision.]

The average gift is about \$80,000. In places like Toronto, Vancouver, it's close to two hundred thousand. And mover-uppers, another 10 percent of people who get a gift, in places like Vancouver, the average gift is three hundred and forty thousand. That's a big gift. This is a

major factor impacting the housing market, and if you are interested in understanding the housing market, that's part of it.

[Upbeat music]

[The impact of immigration]

During COVID 2021, last year, we got four hundred and ten thousand new immigrants. That's a huge wave of increase in activity. And next year, we will get more as the quota is rising, which means that this demand will continue to influence the market.

[A jet descending onto a landing strip. A timelapse of a jet being filled with passengers. A construction site. A worker making measurements on a construction site.]

And we have still very limited supply, with inventories at record low. For the first time, governments at all levels are admitting that supply is the issue because until now we were using demand tools to fight supply issues. For the first time, governments are suggesting that they have to do something about supply. This will take time, but at least it's a step in the right direction. So, at this point, we might see the market still accelerating in the next few months, maybe slow down in the second half of the year as rates start rising, but it will not be derailed. The only thing that can lead to a major adjustment in the market at this point is a monetary policy error in which the central bank, the Bank of Canada, will start raising interest rates way too quickly. That can shock the market. I believe that will not happen, but that's a risk that is facing the housing market at this point.

[Upbeat music]

[This video is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this document should consult with his or her advisor. All opinions and estimates expressed in this video are as of the date of publication unless otherwise indicated, and are subject to change.

™The CIBC logo is a trademark of Canadian Imperial Bank of Commerce (CIBC).

The material and/or its contents may not be reproduced without the express written consent of CIBC.]

[CIBC logo]

[The CIBC logo is a trademark of CIBC, used under license.]