



# CANADIAN HOUSING UPDATE

## **THESIS REFRESH + EMERGING THEMES**

April 24<sup>th</sup>, 2019

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# HEDGEYE FINANCIALS POSITION MONITOR

## INVESTMENT IDEAS - LONG

Ticker	Name	Price	Mkt Cap (M)	3M ADV (M)	S.I. (%Float) Mar-12-19'	DTC Mar-12-19'	Rating Distribution (Buy - Hold - Sell)
V	Visa Inc.	\$154.25	\$ 328,566	\$ 1,275	2%	3.3	37 - 2 - 1
CFG	Citizens Bank	\$ 31.94	\$ 14,705	\$ 171	2%	2.4	19 - 3 - 0
CACC	Credit Acceptance Corp.	\$444.09	\$ 8,426	\$ 41	8%	13.6	0 - 6 - 3
WRLD	World Acceptance Corp.	\$114.14	\$ 1,098	\$ 9	9%	14.7	0 - 1 - 3

## LONG BENCH

Ticker	Name	Price	Mkt Cap (M)	3M ADV (M)	S.I. (%Float) Mar-12-19'	DTC Mar-12-19'	Rating Distribution (Buy - Hold - Sell)
MA	Mastercard inc.	\$231.57	\$ 234,867	\$ 781	1%	2.2	38 - 3 - 1
RLGY	Realogy Holdings Corp.	\$ 11.74	\$ 1,341	\$ 36	23%	8.9	1 - 4 - 3
RMAX	RE/MAX Holdings Inc.	\$ 38.00	\$ 1,300	\$ 6	5%	6.8	4 - 4 - 1

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## INVESTMENT IDEAS - SHORT

Ticker	Name	Price	Mkt Cap (M)	3M ADV (M)	S.I. (%Float) Mar-12-19'	DTC Mar-12-19'	Rating Distribution (Buy - Hold - Sell)
RDFN	Redfin Corporation	\$ 20.41	\$ 1,847	\$ 19	26%	13.5	5 - 5 - 4

### AUSTRALIAN HOUSING:

WBC	Westpac Banking Corp.	\$ 25.95	\$ 89,464	\$ 157	NA	NA	6 - 5 - 4
CBA	CW Bank of Australia	\$ 70.84	\$ 125,404	\$ 221	NA	NA	3 - 9 - 4
ANZ	Australia and NZ Bank	\$ 25.94	\$ 73,493	\$ 147	NA	NA	7 - 5 - 2
NAB	National Australia Bank	\$ 25.04	\$ 70,395	\$ 141	NA	NA	7 - 6 - 1

### CANADIAN HOUSING:

MIC	Genworth MI Canada	\$ 40.20	\$ 3,521	\$ 8	5%	12.5	3 - 3 - 1
NA	National Bank of Canada	\$ 60.99	\$ 20,467	\$ 83	2%	4.8	2 - 10 - 1
CM	CIBC	\$107.13	\$ 47,545	\$ 158	2%	10.0	6 - 5 - 2
RY	Royal Bank of Canada	\$102.15	\$ 146,624	\$ 298	0%	3.8	7 - 4 - 2
CWB	Canadian Western Bank	\$ 28.47	\$ 2,510	\$ 8	2%	5.8	3 - 7 - 2
PRAA	PRA Group	\$ 26.76	\$ 1,213	\$ 10	18%	12.5	2 - 7 - 0
ECPG	Encore Capital Group	\$ 27.03	\$ 835	\$ 7	24%	32.6	7 - 2 - 0

### CARDS:

COF	Capital One	\$ 80.48	\$ 37,653	\$ 231	1%	2.5	16 - 5 - 2
AXP	American Express	\$108.87	\$ 91,314	\$ 375	1%	2.6	12 - 16 - 1

## SHORT BENCH

Ticker	Name	Price	Mkt Cap (M)	3M ADV (M)	S.I. (%Float) Mar-12-19'	DTC Mar-12-19'	Rating Distribution (Buy - Hold - Sell)
BMO	Bank of Montreal	\$100.80	\$ 64,351	\$ 172	1%	5.4	4 - 7 - 2
BNS	Bank of Nova Scotia	\$ 70.74	\$ 86,721	\$ 204	1%	10.1	5 - 7 - 1
TD	Toronto-Dominion Bank	\$ 73.03	\$ 133,854	\$ 276	0%	11.4	9 - 3 - 1

1

## THESIS RECAP

A review of the prevailing set of financial system instabilities born out of the unprecedented interdependence between housing-related industries and the historical sustenance of the broader Canadian economy.

2

## LAST TWELVE MONTHS IN REVIEW

An updated summary and analysis of the major Canadian housing finance policies and regional regulatory measures enacted over the last 12 months, paired with a contextualized review of regional housing data (Toronto, Vancouver, Calgary, Montreal).

3

## EMERGING THEMES

An overview of emerging themes and potential catalysts, including: the dampened outlook for an economy losing the thrust of its two historically dominant engines, the diminished competitive position from an improved and increasingly friendly U.S. business climate, a deterioration in household finances under the growing weight of burdensome debt loads, the significance of newly rising tensions in Canada-China relations, the relevance of the broader China short case, and growing alarm and public scrutiny over relaxed money laundering law.



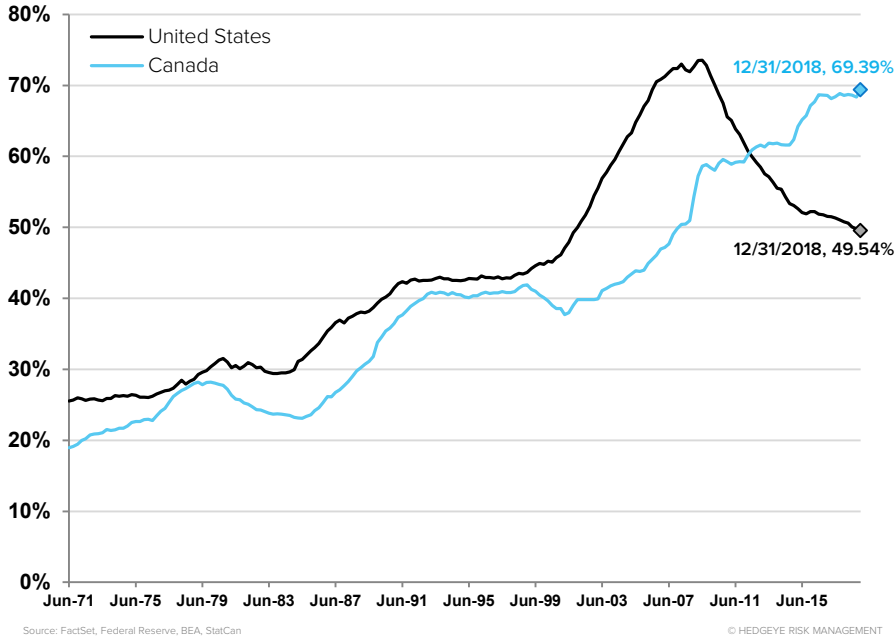


# THESIS RECAP

# 90 SECOND RUNDOWN OF THE **CANADIAN** HOUSING STORY

- Unlike Canadian equities, the Canadian housing market has not experienced a major correction since the Toronto condo bubble of the 1980's – with the fallout from the GFC largely mitigated by the government's rollout of the Insured Mortgage Purchase Program in 2008 and the economic tailwinds from the Chinese credit-fueled global commodity surge of 2009-2013.
- Removed from any recent memory of a major correction, housing transcended function and emerged as a lucrative asset class with a perceived return profile bolstered by:
  - Historically cheap and abundant financing
  - A principal residence exemption on capital gains taxation
  - Land-use policies and geographical constraints restraining supply in two major Canadian housing markets
    - Greater Toronto Area: Greenbelt + Lake Ontario
    - Metro Vancouver Area: Agriculture Land Reserve + Sea, Mountains, Southern Border
  - A severely weakened CAD in the years following the end of the 2009-2013 commodities boom, creating a near 30% discount, exacerbated by a lack of transparency in property ownership, on Canadian real estate for holders of the effectively USD-pegged Yuan fearing a Chinese slowdown and policy-driven currency devaluation, culminating in a 1/3 depletion of China's liquid foreign reserves and an incremental pricing of Canadian real estate –the servicing of which was independent of income that was earned locally.
- As regional pricing appreciation took effect, giving way to contagion in surrounding regions, lucrative stories of quick flipping and large tax-free property-related gains spread throughout the market, sparking a reflexivity-inducing, speculative homebuyer psychology.
- Perceived wealth effects saw households augment consumption, consolidating unsecured, high interest debt and making increasing use of HELOCs, which, in tandem with increased residential structure investment, crystalized in an unprecedented interdependence between housing and the broader economy.
- While several regulatory measures have been enacted in the last 16-32 months to limit the availability of credit to overleveraged households and curb speculative activity, the prospect of engineering a soft landing appears seemingly dim.
- In sum, we argue that the level of domestic wealth creation is insufficient and incapable of sustaining the pace and upholding the elevated levels of Canadian real estate, setting up a troublesome unwind for the leverage and expectations built atop of it.

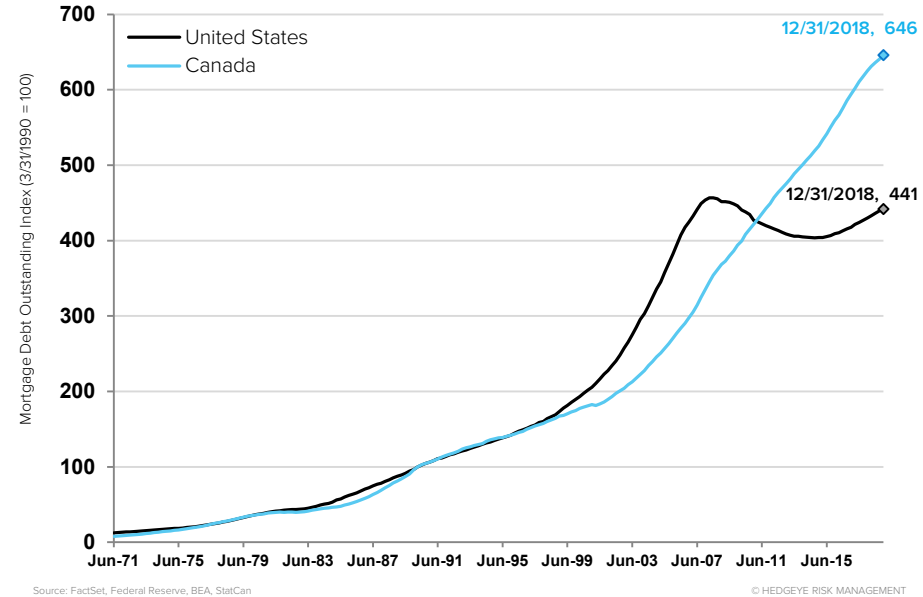
# SWELLING MORTGAGE DEBT



## HOUSEHOLD MORTGAGE DEBT TO GDP

While total mortgage debt as a share of GDP has not yet reached the U.S. peak, it remains on a trajectory to do so.

## HOUSEHOLD MORTGAGE DEBT

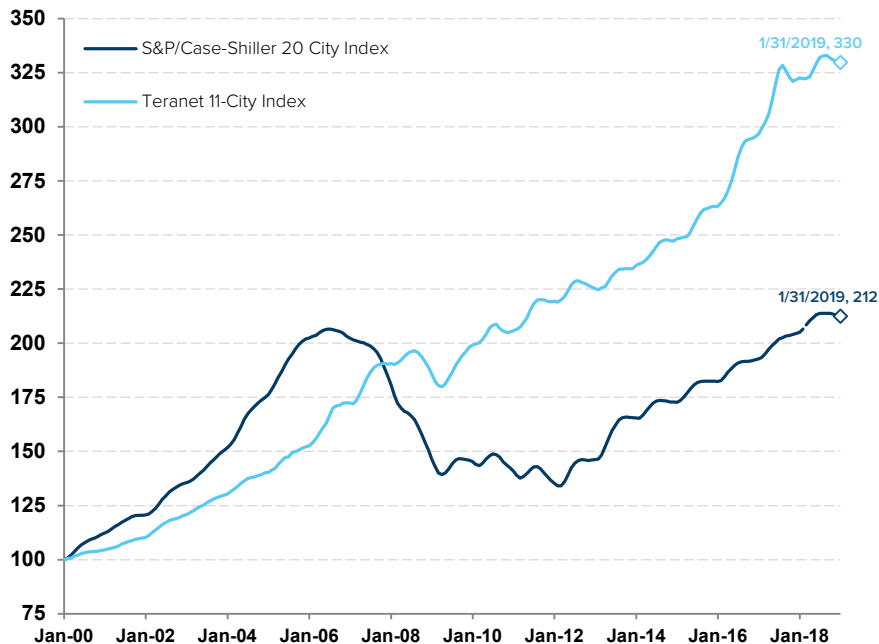


## HOUSEHOLD MORTGAGE DEBT INDEXED

Speaking to that trajectory, we can see that Canadian mortgage debt has thoroughly outpaced its U.S. equivalent in the years following the financial crisis.



# ASSET PRICE INFLATION + HEAVY DEBT BURDEN

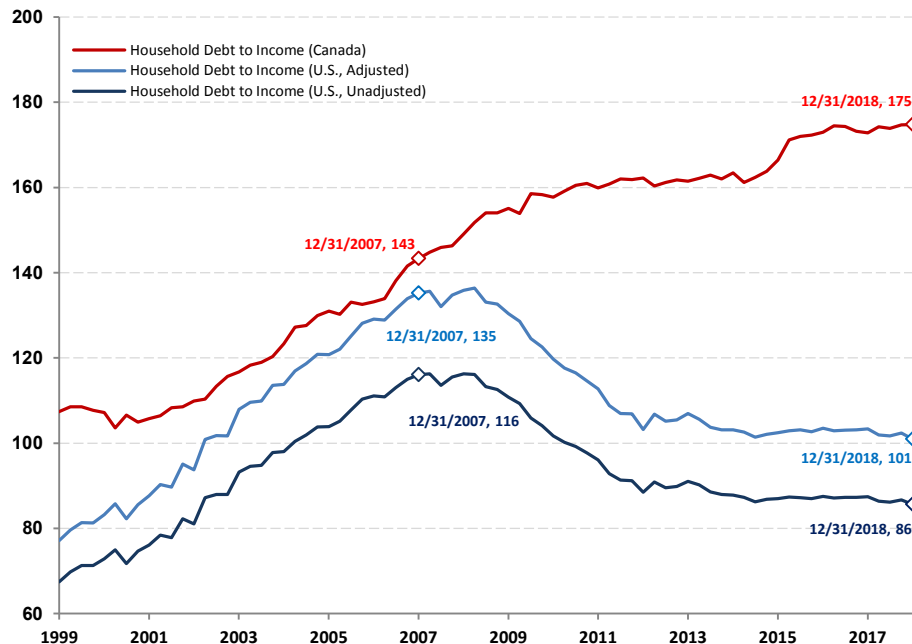


Source: FactSet, S&P Case-Shiller, Teranet

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## CANADA VS. US HOME PRICES

In the years following the financial crisis, Canadian real estate has thoroughly outpaced its neighbor to the south. In particular, the run-up in Canadian housing has surpassed the level of appreciation seen in the U.S. from 2000-2007.



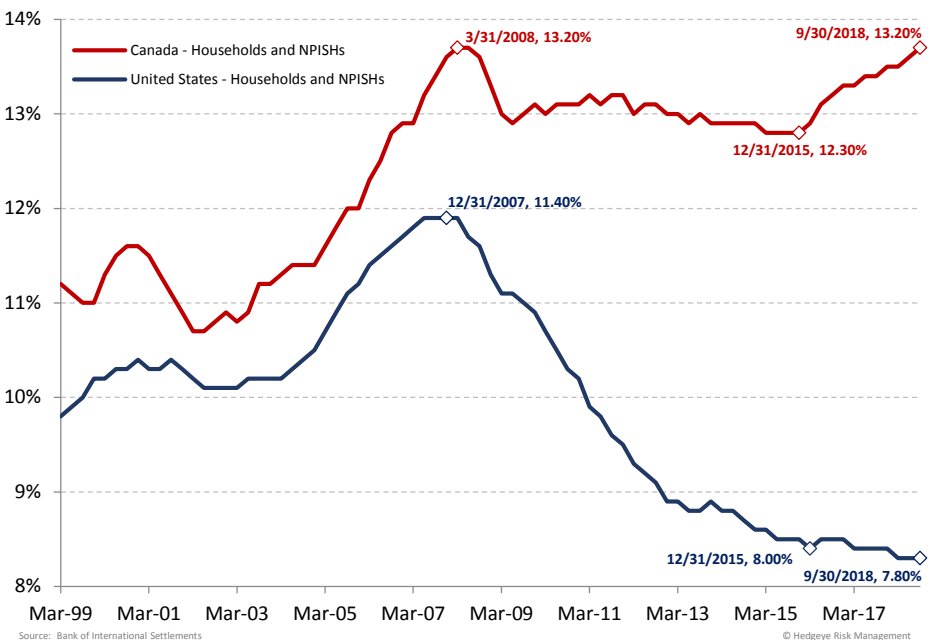
Source: BEA, Federal Reserve, StatsCAN, Bank of Canada

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## HOUSEHOLD DEBT TO DISPOSABLE INCOME

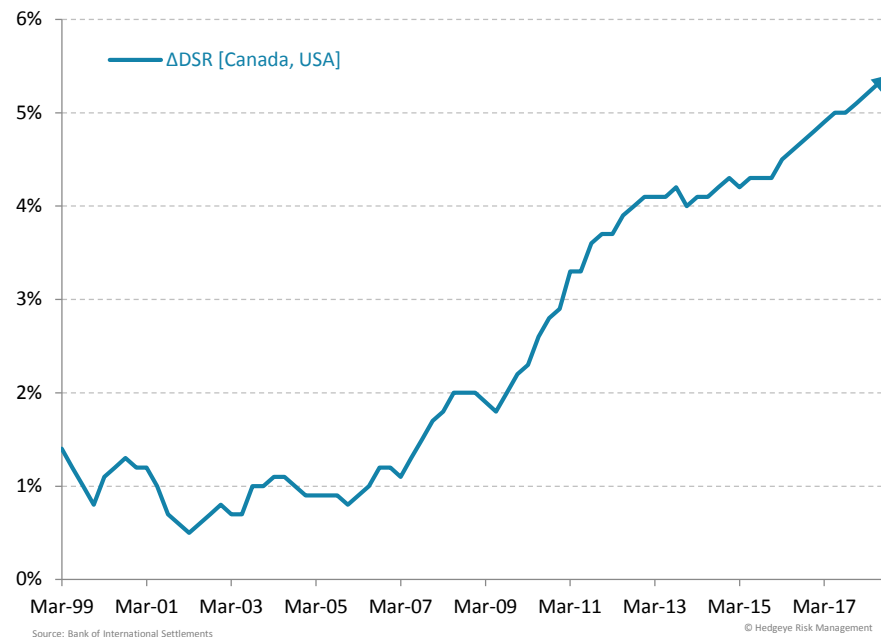
Canadian household debt to income continues to move up and well ahead of the levels of its southern neighbor, even after adjusting U.S. incomes down for healthcare spending.

# DEBT SERVICE RATIO BIS



## CROSS-BORDER DIVERGENCE

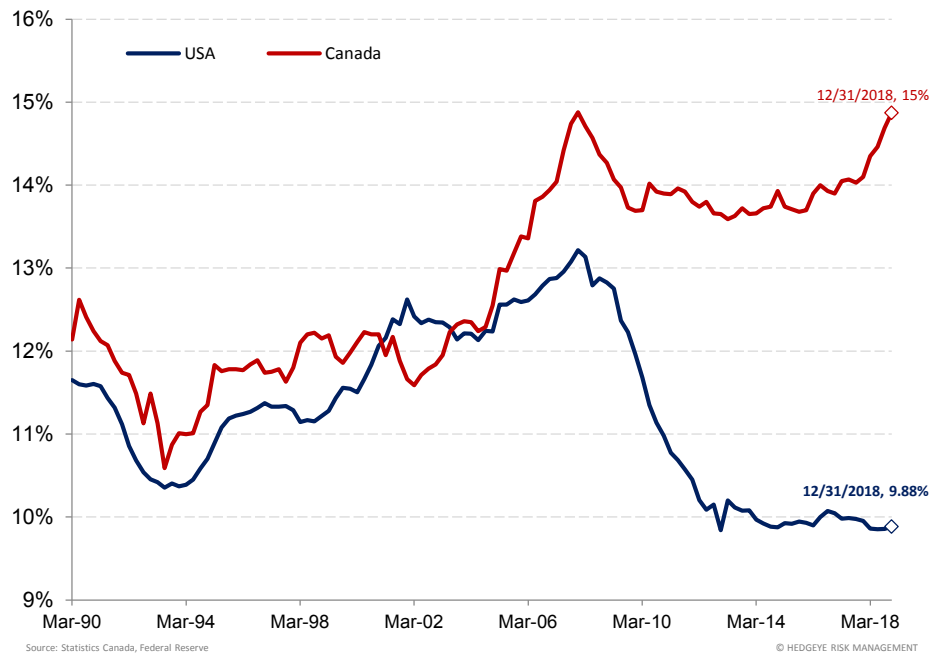
U.S. disposable income is likely not adjusted for healthcare spend, but this does not take away from the significant divergence in debt service ratios for U.S. and Canadian households.



## BEYOND STRUCTURAL DISPARITY

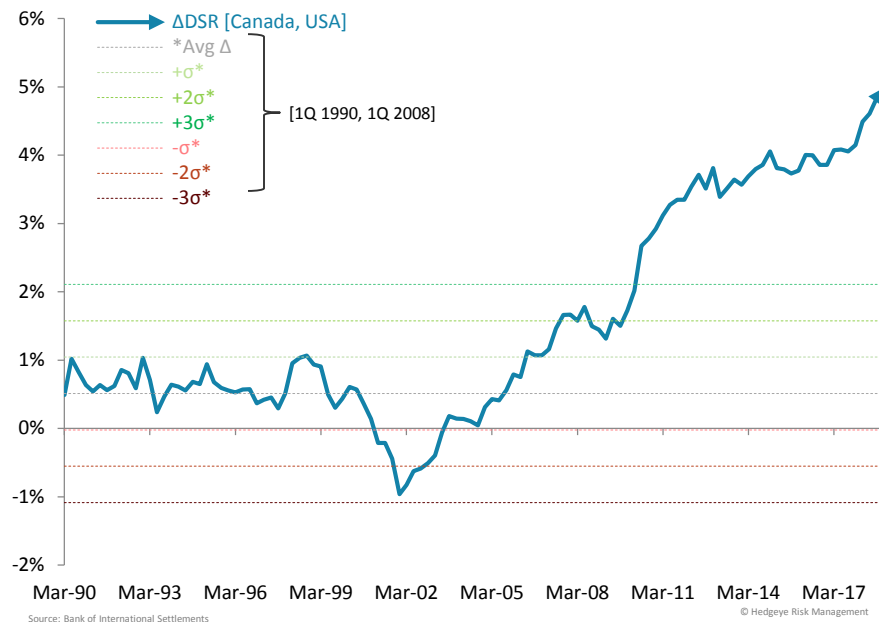
The delta clearly extends beyond structural differences in disposable income.

# DEBT SERVICE RATIO STATISTICS CANADA, FED COMPOSITION



## CROSS-BORDER DIVERGENCE

U.S. disposable income is likely not adjusted for healthcare spend, but this does not take away from the significant divergence in debt service ratios for U.S. and Canadian households.



## BEYOND STRUCTURAL DISPARITY

The delta clearly extends beyond structural differences in disposable income.

# A PREVIOUSLY RELIABLE MEANS OF AUGMENTED CONSUMPTION

Assets, debts and net worth held by all family units in Canada

	Held by all family units			Percentage holding asset or debt			Median amount for family units holding asset or debt		
	1999	2005	2012	1999	2005	2012	1999	2005	2012
	millions of dollars			%			dollars		
<b>Total assets</b>	<b>4,489,109</b>	<b>6,395,134</b>	<b>9,410,656</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>209,900</b>	<b>261,500</b>	<b>371,300</b>
Private pension assets	1,309,523	1,856,089	2,829,705	69.7	70.6	70.5	65,500	77,400	116,700
Financial assets, non pension	554,126	664,900	1,047,214	89.8	89.4	95.0	6,000	6,900	9,900
Deposits in financial institutions	207,339	269,929	343,984	87.5	87.0	92.8	3,300	4,100	4,000
Mutual funds / Investment funds / Income trusts	103,102	152,129	239,468	14.0	12.3	11.6	17,000	27,500	50,000
Stocks	117,919	117,222	204,864	9.9	9.9	8.5	11,800	13,100	30,000
Bonds (saving and other)	33,172	39,375	24,378	14.0	10.4	7.4	3,300	2,800	3,000
Tax-free savings accounts	..	..	65,939	..	..	33.7	..	..	10,000
Other financial assets	92,595	86,246	168,580	13.2	17.5	21.6	6,300	6,800	10,000
<b>Non-financial assets</b>	<b>2,176,597</b>	<b>3,203,286</b>	<b>4,744,580</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>131,000</b>	<b>161,200</b>	<b>227,000</b>
Principal residence	1,418,971	2,137,890	3,254,275	59.6	61.9	62.5	163,800	204,700	300,000
Other real estate	302,863	546,886	931,762	16.3	16.1	18.4	82,500	96,700	180,000
Vehicles	161,343	194,726	245,520	76.5	75.4	78.1	11,800	13,100	15,000
Other non-financial assets	293,420	323,785	313,023	100.0	100.0	100.0	13,100	11,400	10,000
<b>Equity in business</b>	<b>448,863</b>	<b>670,859</b>	<b>789,158</b>	<b>19.0</b>	<b>16.6</b>	<b>17.1</b>	<b>11,800</b>	<b>18,000</b>	<b>10,000</b>
<b>Total debts</b>	<b>586,095</b>	<b>864,625</b>	<b>1,337,071</b>	<b>67.3</b>	<b>69.4</b>	<b>71.1</b>	<b>36,700</b>	<b>50,600</b>	<b>60,100</b>
Mortgages	453,557	650,751	1,029,811	34.3	36.5	36.7	90,400	105,800	150,000
Principal residence	388,119	552,849	821,010	32.0	34.1	33.8	87,100	102,400	145,000
Other real estate	65,438	97,901	208,801	4.6	4.7	6.4	78,600	102,400	140,000
Line of credit	33,220	77,492	144,946	15.4	24.9	24.8	6,600	10,200	15,000
Credit card and installment debt	18,507	29,316	35,321	38.0	39.3	39.9	2,400	2,700	3,000
Student loans	19,623	22,718	28,272	11.7	11.8	12.5	9,400	10,200	10,000
Vehicle loans	37,093	52,439	75,814	20.8	25.8	28.5	11,800	12,500	15,000
Other debt	24,096	31,909	22,908	16.2	14.1	11.2	5,200	6,800	4,800
<b>Net worth (assets less debts)</b>	<b>3,903,014</b>	<b>5,530,509</b>	<b>8,073,585</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>137,000</b>	<b>168,700</b>	<b>243,800</b>

... not available for a specific reference period  
**Note(s):** All dollar amounts are in constant 2012 dollars.

2012-2017 Canadian Wealth Effect Estimate (CAD in Billions)

	2005	2012	2017	2005-2012 Growth	2012-2017 Growth
MFs / Stocks	\$ 308	\$ 467	\$ 571	\$159	\$104
Real Estate	1,722	2,685	3,780	963	1,095
<b>Total</b>	<b>\$ 2,030</b>	<b>\$ 3,152</b>	<b>\$4,351</b>	<b>\$1,122</b>	<b>\$1,199</b>

Wealth Effect Spending (CAD in Billions), Assuming 6%<sup>(1)</sup>

2005 - 2012	\$67.32
<b>2012 - 2017</b>	<b>\$71.94</b>

Contribution to GDP Growth (2012-2017)

Canadian Nominal GDP (CAD in Billions)

<b>2012</b>	<b>\$ 1,822.8</b>
<b>2017</b>	<b>2,145.2</b>
<b>Δ</b>	<b>\$ 322.4</b>

<b>% Contribution</b>	<b>=</b>	<b>(71.9) / (322.4)</b>	<b>=</b>	<b>22%</b>
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(1) Dean, Baker (2011), The End of Loser Liberalism, Center for Economic and Policy Research, p. 18, ISBN 978-0-615-53349-0

## THE WEALTH EFFECT

The wealth effect, driven primarily by housing, has been substantive.

Direct wealth, measured by ΔFinancialSecurities + ΔRealEstate – ΔMortgageLiabilities, has grown by \$CAD 1.1 trillion from 2005-2012, or ~152 bn/year.

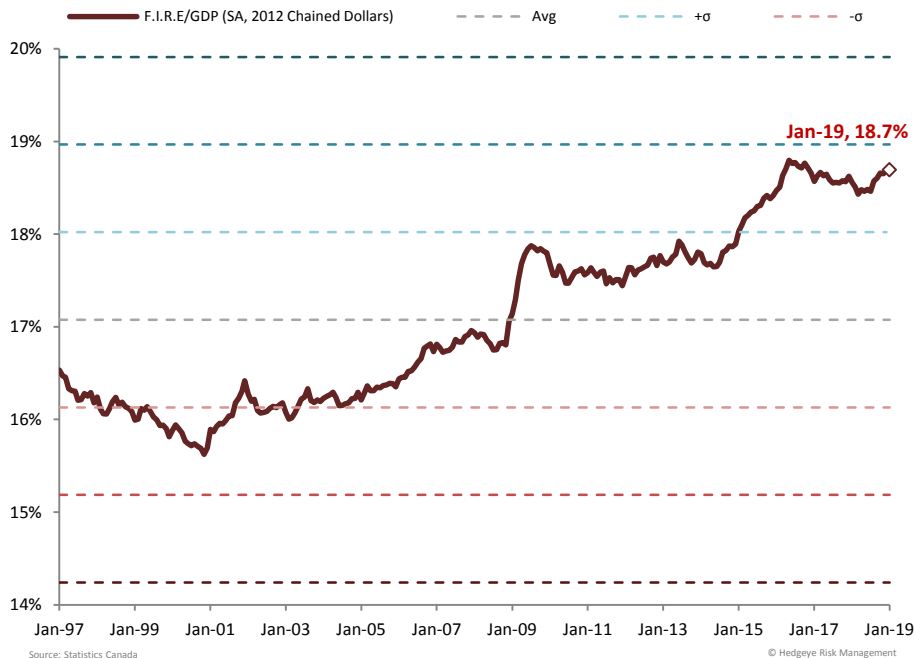
Assuming 6% wealth effect spending, this would driven +\$C62B in additional spending, accounting for ~16% of GDP growth over this period.

## THE WEALTH EFFECT (REINVIGORATED)

Using implied growth rates derived from the TSX and the Teranet HPI, we can estimate the growth in direct wealth beyond 2012 until present day. It is clear that the wealth effect, substantive already, has grown even more significantly in the subsequent 5-year period. In particular, direct wealth has growth \$CAD 1.2 trillion from 2012-2017, or ~240 bn/year.

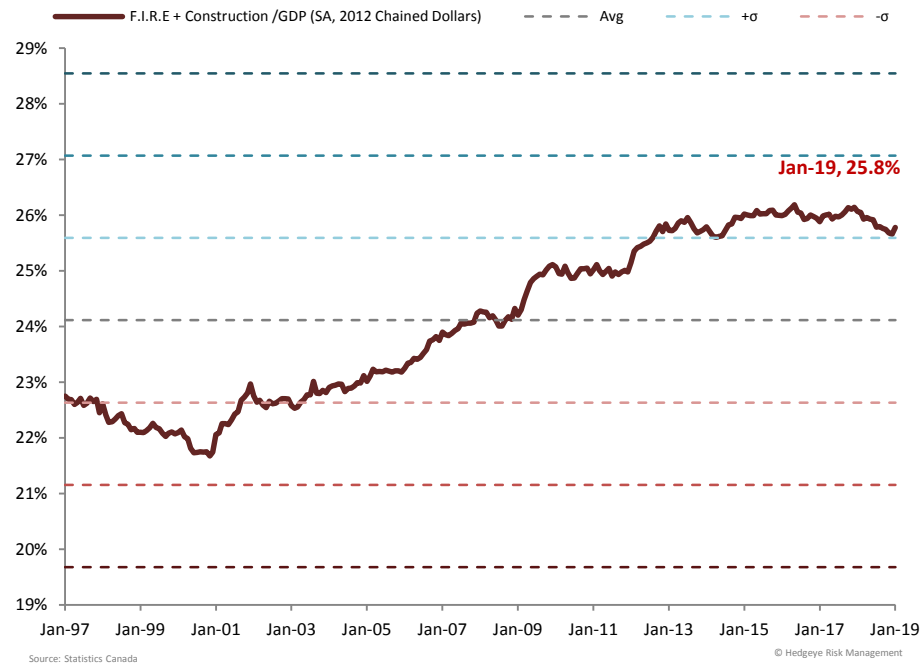
Using the same 6% wealth effect spending, **this has driven +\$C72B in additional spending, accounting for ~22% of GDP growth over this period.**

# THE F.I.R.E. ECONOMY



## F.I.R.E / GDP (SA, 2012 CHAINED DOLLARS)

F.I.R.E's representation of Canadian GDP of 18.7% remains elevated at 1.8 standard deviations above the long-term average.



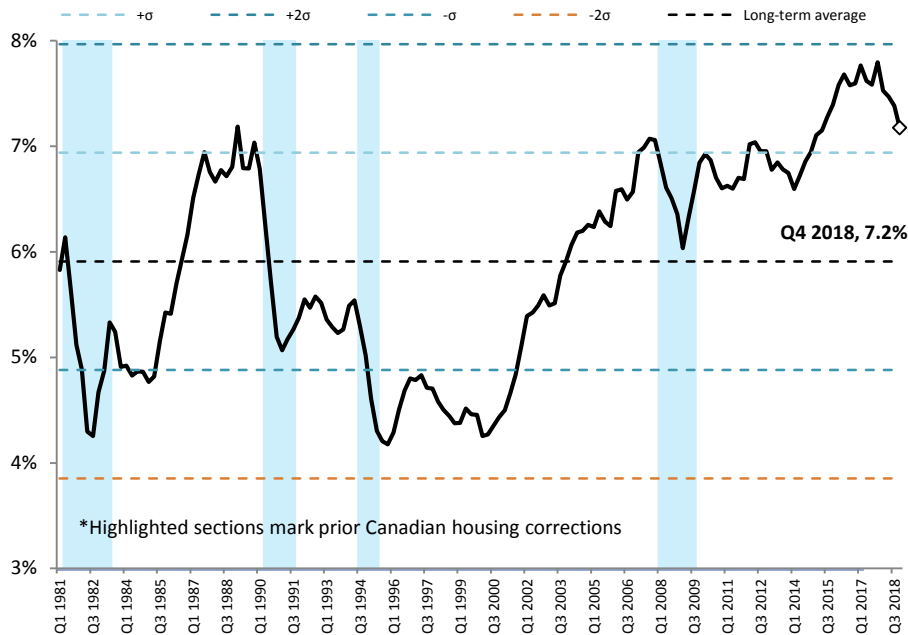
## F.I.R.E + CONSTRUCTION / GDP (SA, 2012 CHAINED DOLLARS)

Adding hard hats to the mix, the F.I.R.E and Construction industries have grown to account for 25.8% of total economic activity. The rise has been steady and the current representation stands over 1 standard deviation above its long-term average.

# RESIDENTIAL R.E. INVESTMENT

## INVESTMENT IN RESIDENTIAL CONSTRUCTION AS A SHARE OF GDP

Seasonally adjusted at annual rates, Current prices

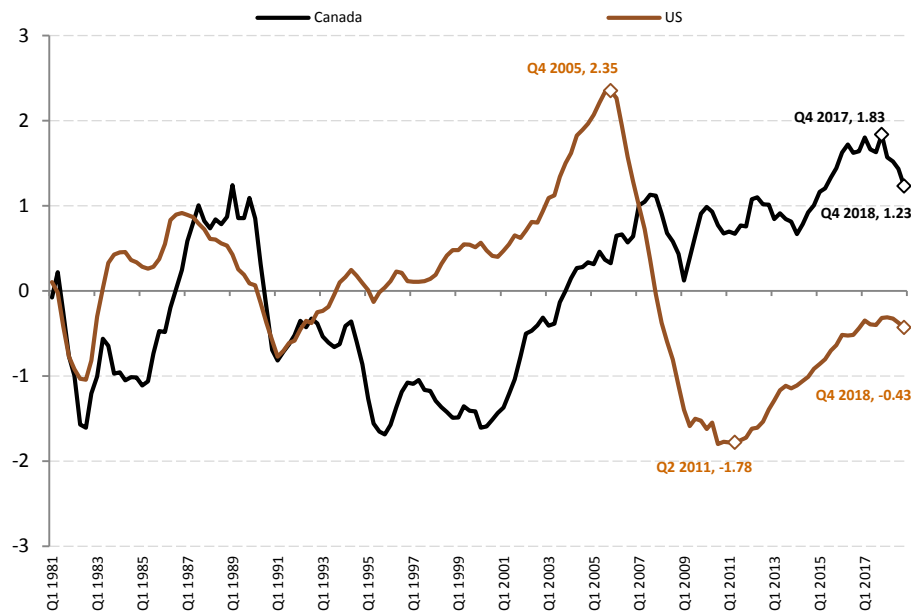


## PRIVATE FIXED INVESTMENT IN RESIDENTIAL STRUCTURES

At an expenditure level, private investment in residential real estate accounted for 7.2% of GDP in 4Q2018 –down from slightly less than two standard deviations above the long-term average.

## RESIDENTIAL INVESTMENT / GDP IN UNITS OF STDEV ABOVE THE LONG-TERM AVERAGE

Seasonally adjusted at annual rates, Current prices



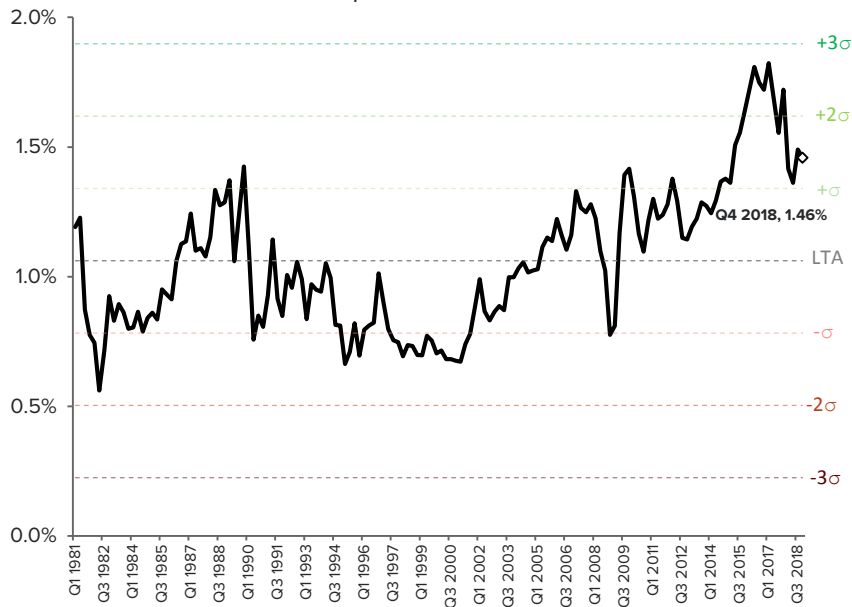
## THE FORMER IN STDEV TERMS

Following the G.F.C, the contribution of Canadian residential real estate investment to GDP had been steadily edging up to the U.S. peak in 2005.



# EXTREME PHENOMENA

Ownership transfer costs / Canadian GDP



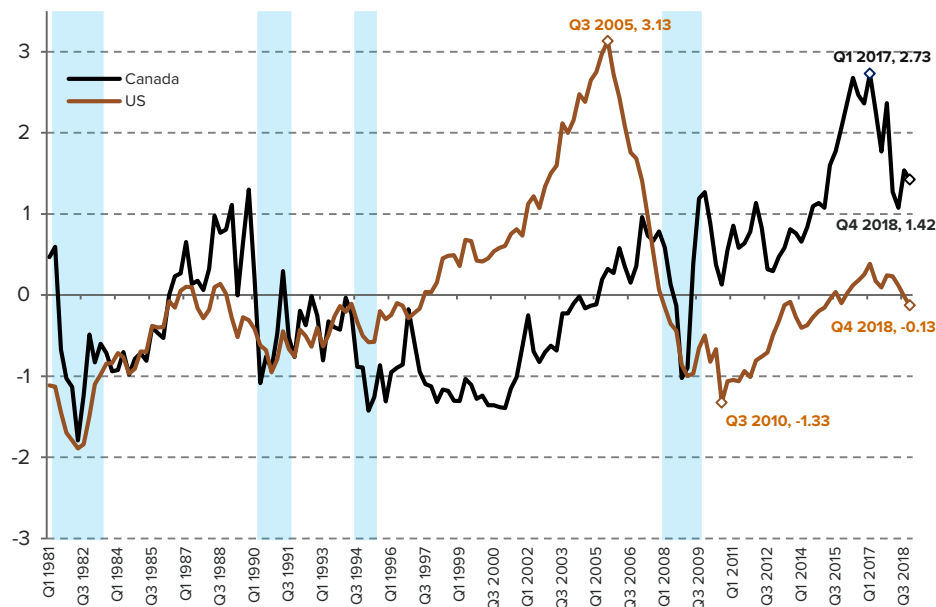
Source: Statistics Canada

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## BROKER COMMISSIONS 1.46% OF GDP

Another useful measure of the housing craze north of the border is broker commissions and other ownership transfer fees as a share of GDP. This figure once stood at 1.82% or > 2.5 standard deviations above its long-term average.

Ownership transfer costs / Canadian GDP in units of stdev above long-term average



Source: Statistics Canada

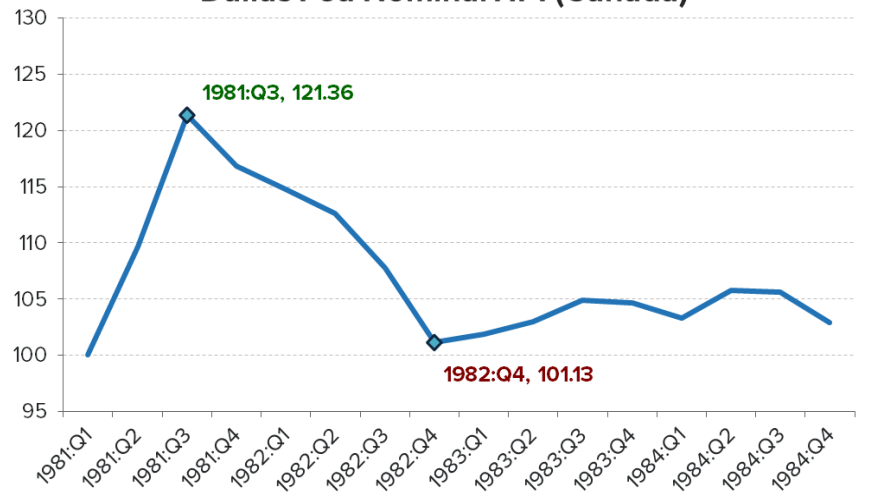
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## THE FORMER IN STDEV TERMS

On a relative basis, broker commissions and other ownership transfer fees once nearly eclipsed levels reached during the U.S. housing peak, having come down meaningfully in the last year.

# FLASHBACK: CANADA 1981

## Dallas Fed Nominal HPI (Canada)



Source: Dallas Fed

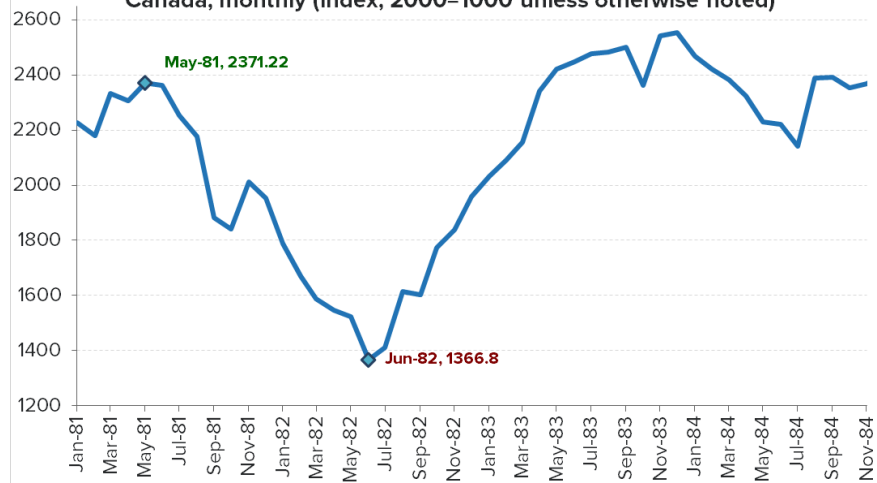
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## NATIONWIDE: HOME PRICES $\downarrow 17\%$

A policy-induced spike in immigration led to increasing population/settlement along the west coast of Canada, ultimately spurring a run-up in Vancouver housing from 1970-1980. Like the current state of Canadian housing, this local/regional phenomenon extended outwards and had a contagion effect on the broader market.

Data Source: Dallas Fed, Statistics Canada

Table 176-0047 Toronto Stock Exchange statistics, Bank of Canada, monthly (index, 2000=1000 unless otherwise noted)



Source: StatsCan

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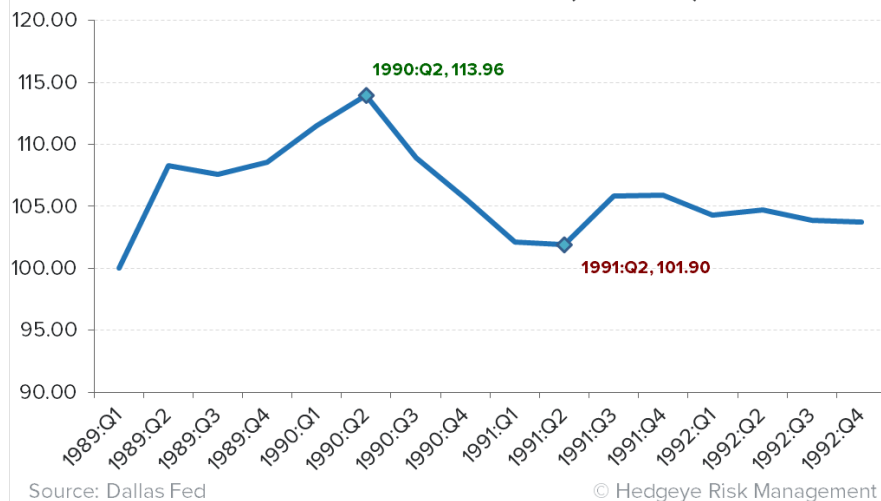
## TSX $\downarrow 42\%$

From May 1981 to June 1982, the TSX lost -42% of its value, with the financial services index faring slightly better.

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# FLASHBACK: CANADA 1990

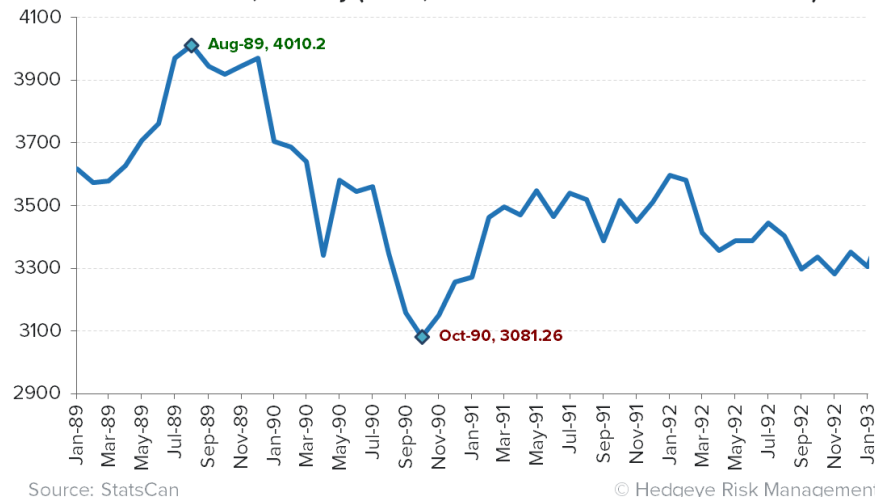
## Dallas Fed Nominal HPI (Canada)



## NATIONWIDE: HOME PRICES ↓11%

The housing hysteria of the late 80's originated from a rampant increase in condo development in the city of Toronto. Like the current state of Canadian housing, this local/regional phenomenon extended outwards and had a contagion effect on the broader market.

## Table 176-0047 Toronto Stock Exchange statistics, Bank of Canada, monthly (index, 2000=1000 unless otherwise noted)



## TSX ↓11%

From August 1989 to October 1990, the TSX fell -23% **with the financial services index faring far worse at -30% over this same period.**



## **EVOLUTION OF THE REGULATORY LANDSCAPE**

# TURNING UP THE HEAT

## MAJOR POLICY CHANGES ENACTED: 2016 – PRESENT

### February 2016

- Minimum down payment, for the portion of insured mortgages >C\$500K, raised to 10%

### August 2016

- B.C. government establishes 15% tax on foreign buyers in Metro Vancouver Area

### September 2016

- OFSI targets lenders and mortgage insurers by imposing higher capital requirements for insured mortgages that do not meet the regulator's underwriting standards , and requiring mortgage insurers to hold supplementary capital based on mortgage characteristics

### October 2016

- All high-ratio insured homebuyers must qualify for mortgage insurance at an interest rate the greater of their contract mortgage rate or the Bank of Canada's five-year fixed posted rate
- Principal residence exemption from capital gains taxation limited to Canadian residents only and tax reporting requirements introduced for all dispositions of real estate

### November 2016

- New low-ratio mortgages insured using portfolio insurance must satisfy the same eligibility criteria as high-ratio insured mortgages. Most notably, low-ratio mortgages insured at the portfolio level can no longer include refinancings and have been limited to a maximum amortization length of 25 years and property values below C\$ 1 million.
- Vancouver City Council approved the EHT program and enacted the Vacancy Tax By-law No. 11674 (EHT by-law) to levy a tax on empty and under-utilized class 1 residential properties within the City of Vancouver. Homes that are determined or deemed to be empty are subject to a tax of 1% of the property's assessed taxable value.

## MAJOR POLICY CHANGES ENACTED: 2016 – PRESENT

### April 2017

- Ontario government introduces Fair Housing Plan, **formally establishing a 15% non-resident speculation tax applicable throughout the Greater Golden Horseshoe area** and empowering interested municipalities to introduce home vacancy taxes to encourage the sale or rental of unoccupied units left vacant by speculative owners

### July 2017

- OFSI drafts revisions to B-20 Residential Mortgage Underwriting Practices and Procedures, which include:
  - i. **a qualifying stress test for all uninsured mortgages**
  - ii. LTV measurements that adjust for local market conditions used to assess the risk of qualifying borrowers **(i.e. mandated, market-specific haircuts on appraisal values)**
  - iii. the express **prohibition of co-lending arrangements** that are designed, or appear to be designed to circumvent regulatory requirements
- The Bank of Canada raises its overnight lending rate by +25 bps from 0.5% to 0.75%, marking the **first rate hike in seven years** while citing “bolstered” confidence in the Canadian economy’s emergence from years of tame growth and **increasing expectations for further rate hikes**—especially one more by the end of 2017.
- The city of Vancouver imposes Vacancy Tax ByLaw 11674, also known as the Empty Homes Tax, in order to relieve pressure on Vancouver’s rental housing market and deter speculation
  - The tax is calculated as 1% of a property's assessed taxable value



## MAJOR POLICY CHANGES ENACTED: 2016 – PRESENT

### September 2017

- The Bank of Canada raises its overnight lending rate by +25 bps from 0.75% to 1.00%.

### October 2017

- OFSI publishes the final version of its revised B-20 Residential Mortgage Underwriting Practices and Procedures, which includes:
  - i. **The implementation of a minimum qualification rate for uninsured mortgages, calculated as the greater of the Bank of Canada 5-year posted rate and the contract rate + 200 bps**
  - ii. Restrictions on co-lending and bundled mortgages that give the appearance of an attempt to circumvent LTV limits
  - iii. LTV measurements that adjust for local market conditions used to assess the risk of qualifying borrowers (i.e. encouraging the use of internally assigned haircuts to appraisal values based on regional market characteristics)
- The Bank of Canada raises its overnight lending rate by +25 bps from 0.75% to 1.00%.

### January 2018

- The Bank of Canada raises its overnight lending rate by +25 bps from 1.00% to 1.25%.
- OSFI's new B20 Underwriting Guideline for federally regulated financial institutions goes into effect.

### February 2018

- B.C. government raises its tax on foreign buyers in Metro Vancouver Area from 15% to 20%, expanding its applicability beyond the Vancouver region to properties in Victoria and other parts of the province
- B.C. government announces new speculator tax to take effect in the fall of 2018 and apply to foreign and domestic investors who do not pay income tax in the province
  - The tax will start at 0.5% of the property's assessed value in 2018 and rise to 2% thereafter
  - Primary residences and homes leased as long-term rentals will be exempt

## MAJOR POLICY CHANGES ENACTED: 2016 – PRESENT

### July 2018

- The Bank of Canada raises its overnight lending rate by +25 bps from 1.25% to 1.50%.

### October 2018

- The Bank of Canada raises its overnight lending rate by +25 bps from 1.50% to 1.75%.

### March 2019

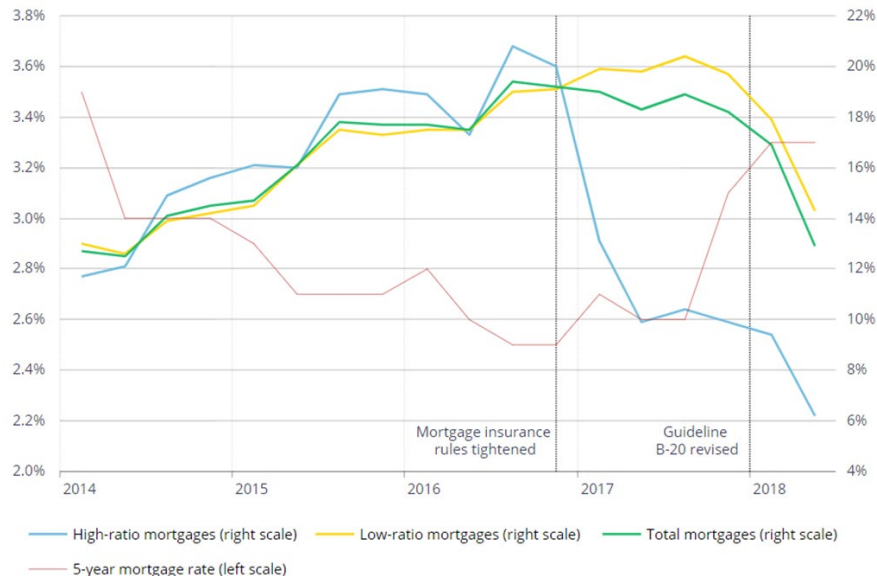
- Addressing affordability concerns, the federal government announced a First-Time Home Buyer Incentive, available to those with household incomes under \$120,000 per year. The CMHC will offer qualified first-time homebuyers a 10 per cent shared equity mortgage without interest for a newly constructed home or a five per cent shared equity mortgage for an existing home, with the amount of the insured mortgage plus the CMHC incentive capped at 4x the home buyers' annual incomes.
- In the release of 2019-2020 Canadian Federal Budget, mortgage stress tests and the 25-year amortization limit on transactionally insured mortgages were left unchanged.

### April 2019

- Legislation introduced by the B.C. government to fight the use of shell companies and other legal entities to anonymously hide wealth, evade taxes and launder money.
- The land owner transparency act, when passed, will establish a public registry of beneficial owners of property in B.C., meaning true ownership will no longer be hidden. The act will require corporations, trusts and partnerships, which currently own or buy land, to disclose their beneficial owners in the registry. Corporations, trusts and partnerships that fail to disclose could face fines of up to \$100,000 or 15% of the assessed property value, whichever is greater.

# B20 – ASSESSING THE IMPACT

## SHARE OF NEW MORTGAGES WITH A LOAN-TO-INCOME RATIO > 450% ; 5-YEAR MORTGAGE RATE



Over the past two years, federal authorities have tightened the criteria for mortgage qualification with the aim of improving the quality of new mortgage lending. Mortgage insurance rules for high-ratio mortgages<sup>1</sup> (those with loan-to-value ratios greater than 80 per cent) were modified in October 2016 to contain an expanded stress test that checks whether borrowers can still afford payments if interest rates increase.

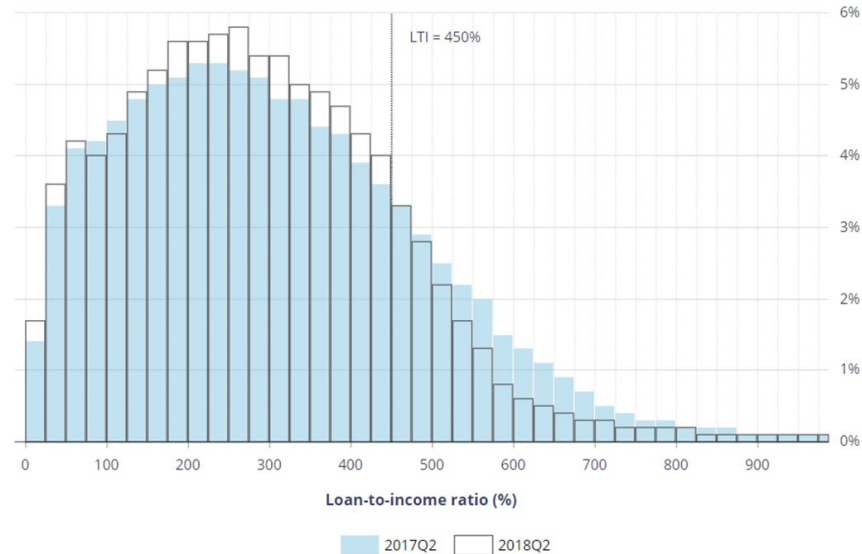
Borrowers who intend to take on loans that are more than 4.5 times (450 per cent of) their annual income are particularly vulnerable to unfavourable situations, such as higher interest rates or a loss of income. The expanded stress test helped to reduce the proportion of new high-ratio mortgages with loan-to-income (LTI) ratios above 450 per cent—from 20 per cent in the fourth quarter of 2016 to 6 per cent in the second quarter of 2018.

The Office of the Superintendent of Financial Institutions (OSFI) included a similar stress test for low-ratio mortgages in the revised Guideline B-20 that came into effect in January 2018. Subsequently, the share of low-ratio mortgages with a loan-to-income (LTI) ratio over 450 per cent has fallen to 14 per cent as of the second quarter of 2018, down from 20 per cent a year before.

Recent increases in interest rates are also contributing to the reduction in the number of highly indebted households. Since they spend a larger fraction of their income making debt payments, highly indebted borrowers are the most affected by higher interest rates. As average contractual rates for five-year fixed-rate mortgages have increased from 2.7 per cent to 3.3 per cent over the past year, the overall share of new highly indebted borrowers has decreased, from 18 per cent to 13 per cent.

**Note:** Data include mortgages for residential purchases and refinances originated by federally regulated financial institutions. The 5-year mortgage rate is the median contractual interest rate for a fixed-rate mortgage issued by a federally regulated lender.

## DISTRIBUTION OF NEW BORROWERS' LOAN-TO-INCOME RATIOS



Some borrowers obtaining a low-ratio mortgage have adjusted their purchasing decisions, as suggested by a shift in the distribution of LTI ratios since the second quarter of 2017.

As fewer loans are given to highly indebted borrowers, a larger share of mortgages is now concentrated around LTI ratios between 250 per cent and 450 per cent.

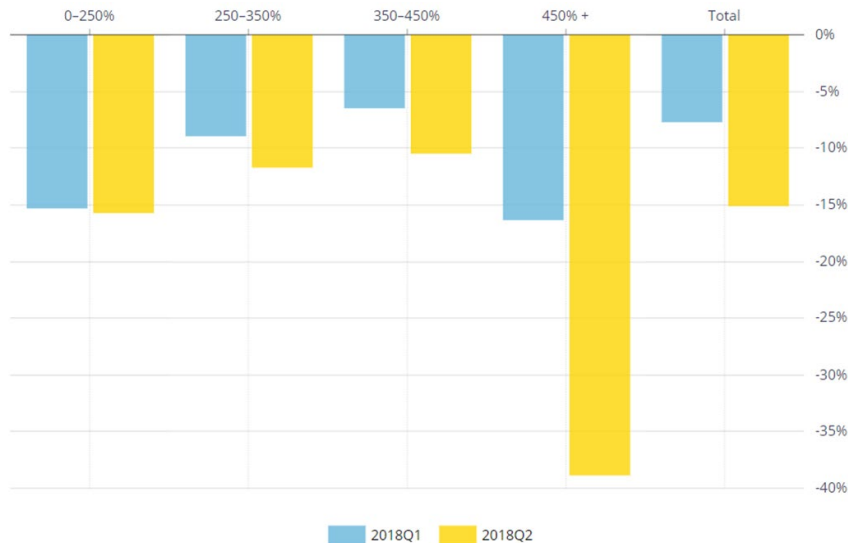
Mortgages with an LTI just below 450 per cent are still relatively risky and likely include borrowers obliged to take smaller loans than they would have obtained without a stress test.

At the same time, the revised Guideline B-20 has not eliminated high-LTI loans altogether, since lenders can apply other criteria to extend such mortgages, including the applicant's housing equity and financial assets.

**Note:** Data are for uninsured low-ratio mortgages for residential purchases originated by federally regulated financial institutions.

# B20 – ASSESSING THE IMPACT CONT.

%ΔY/Y IN THE NUMBER OF NEW UNINSURED BORROWERS, BY LOAN-TO-INCOME RATIO



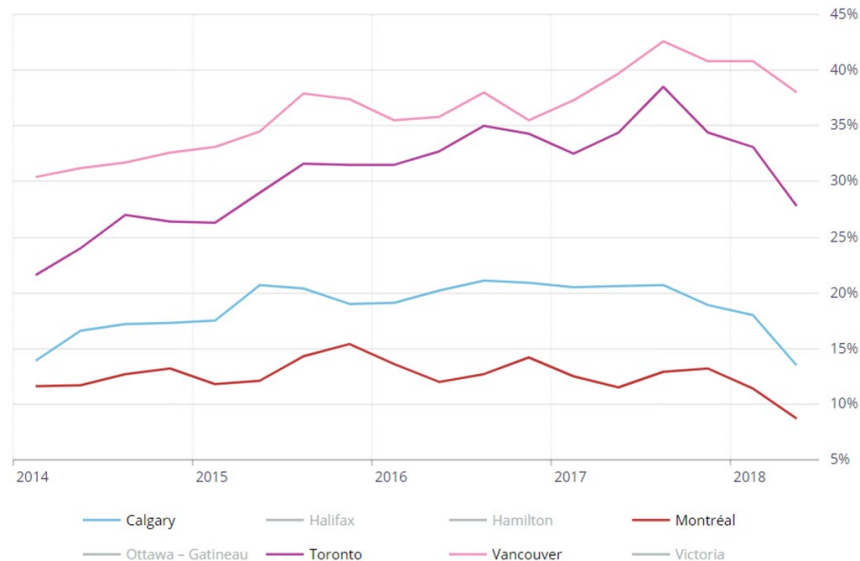
The number of new low-ratio mortgages for home purchases has declined, beginning in the second half of 2017 and continuing through the first half of 2018. In the first quarter of 2018, old qualifying rules were still being applied to some mortgages that were pre-approved before the updated Guideline B-20 took effect. In the second quarter, when the new rules were fully in effect, the number of new low-ratio mortgages fell 15 per cent from a year earlier.

The most pronounced decline has been in the number of new mortgages extended to highly indebted borrowers, which fell by 39 per cent year-over-year in the second quarter of 2018. Contributing to this decline were the expanded stress test, as well as the effects of higher interest rates on highly indebted borrowers, potentially reinforced by changes in general market sentiment.

However, the significant drop in the number of mortgages with lower LTI ratios indicates that other factors, such as provincial and municipal housing policies, are playing an important part. Most notably, a foreign buyers' tax for Vancouver was announced in July 2016 and the coverage expanded in February 2018. Ontario's provincial government implemented a similar tax in April 2017. Other regional policies include an empty house tax, restrictions on short-term rentals and measures to increase affordable housing. These measures helped change market sentiment, which in turn has slowed activity and price growth.

Note: Data are for uninsured low-ratio mortgages for residential purchases originated by federally regulated financial institutions.

SHARE OF NEW MORTGAGES WITH A LOAN-TO-INCOME RATIO > 450%, BY REGION



The revisions to Guideline B-20 and the increase in mortgage rates coincided with a decline in the proportion of high-LTI borrowers across most major cities, but to varying extents.

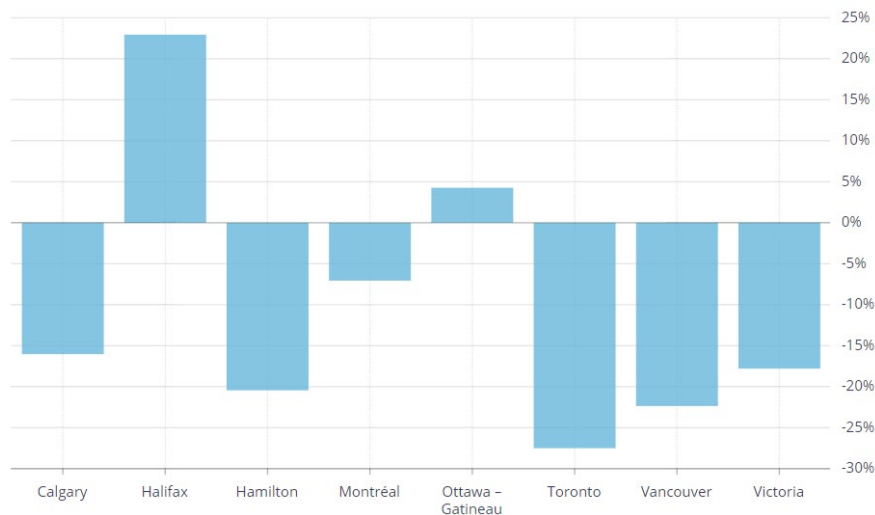
Toronto saw its share of highly indebted borrowers fall from a peak of 39 per cent in the fourth quarter of 2017 to 28 per cent in the second quarter of 2018.

Hamilton, Toronto's neighbour, also saw a steep drop in riskier mortgages, although from a lower level. In Vancouver, there has been a shift of the LTI distribution away from mortgages with very high LTIs, but the share above 450 per cent remains substantial.

Note: Data are for uninsured low-ratio mortgages for residential purchases originated by federally regulated financial institutions.

# B20 – ASSESSING THE IMPACT CONT.

%ΔY/Y IN THE NUMBER OF BORROWERS, 2018 Q2, BY REGION



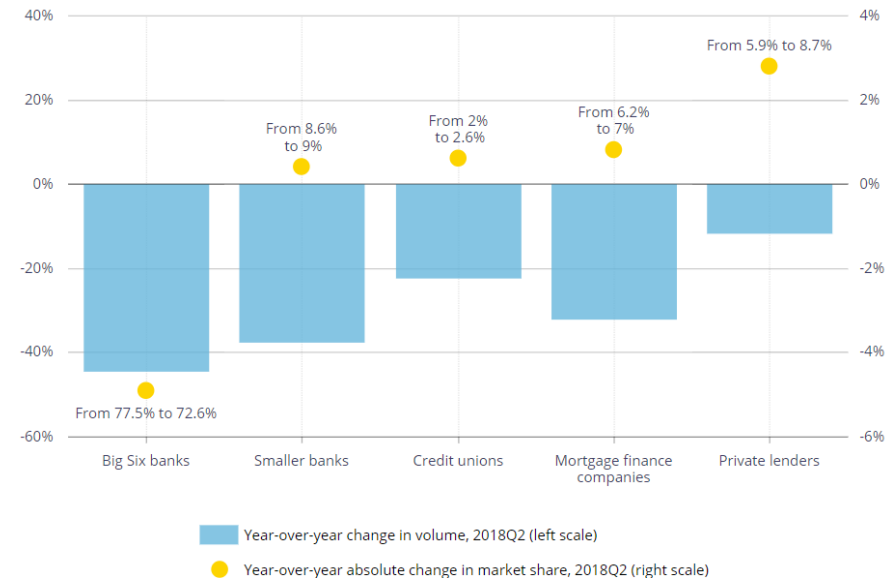
Other factors have been at play as well. Many cities experienced a slowing in new mortgage activity in the second quarter of 2018. Housing markets in Toronto, Vancouver and their surrounding areas have the highest price-to-income ratios in the country and were also subject to regional housing policy measures over the past two years. These markets slowed before the revised Guideline B-20 was introduced and remained weak through the second quarter of 2018. In Calgary, the real estate market has not recovered since the oil price shock of 2015, with the combination of higher rates, tighter mortgage rules and weak income growth continuing to be a drag on local housing. Ottawa–Gatineau and Halifax are on the opposite end of the spectrum: housing activity in these metropolitan areas has recently picked up while the share of high-LTI borrowers remains modest.

The overall riskiness of new mortgages has therefore decreased because the proportion of risky borrowers has declined across cities. As well, the regional composition has shifted, with a somewhat larger share of new mortgages recently coming from areas outside Toronto and Vancouver.

**Note:** Data are for uninsured low-ratio mortgages for residential purchases originated by federally regulated financial institutions.

Data Source: Bank of Canada

%ΔY/Y IN VOLUME AND MARKET SHARE OF VARIOUS LENDER TYPES IN THE GTA



Guideline B-20 applies only to federally regulated lenders such as banks, although credit unions often use their own mortgage stress tests. Mortgages originated by mortgage finance companies (MFCs) generally meet federal mortgage standards, since the bulk of their funding comes from government-sponsored securitization programs. Private lenders, however, do not need to comply with federal mortgage standards. 3

Areas with high house prices, such as the Greater Toronto Area (GTA), could therefore see more borrowers obtaining mortgages from private lenders because they might not be able to qualify with other lenders. While the volume of new mortgage lending in the GTA fell for all lender types in the second quarter of 2018, private lenders saw smaller declines. This boosted their market share from 6 per cent in the second quarter of 2017 to 9 per cent in the second quarter of 2018, continuing an upward trend observed over the past couple of years. We do not currently have data to verify whether the same trend is evident in markets outside Ontario.

**Note:** Originations include purchases, refinances and second mortgages in the Greater Toronto Area. Volume and market share are weighted by dollar value.

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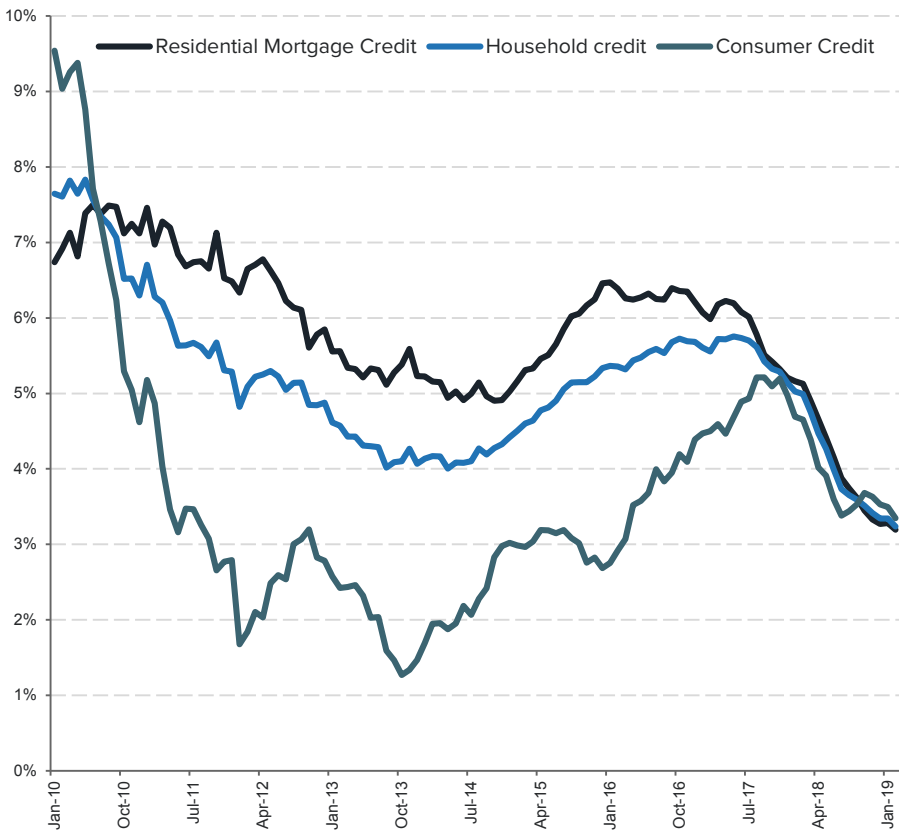
## B20 EFFECT DIFFICULT TO FULLY ISOLATE

- Tighter mortgage policies have contributed to a decrease in the creation of highly indebted households
- **But it isn't possible to separate the role of these policies** from that of other measures in changing mortgage market trends
  - Higher interest rates are directly increasing the cost of mortgage borrowing and effectively making mortgage underwriting requirements stricter
  - At the same time, house price dynamics have changed in some large markets, in part because of regional policy measures
  - Less mortgage borrowing can be both a cause and an effect of changes in house price trends
- With multiple factors at play, the role of individual policies cannot be precisely determined



# TIGHTENING CREDIT ACROSS THE CONSUMER CREDIT COMPLEX

## CREDIT MEASURES %ΔY/Y

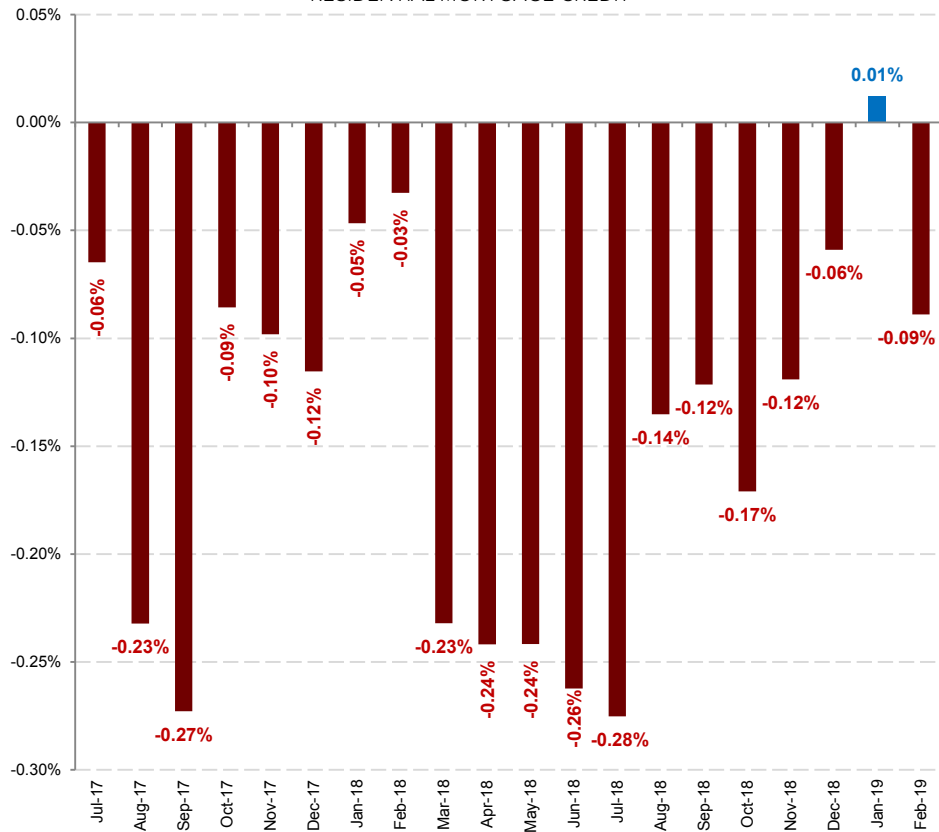


Source: Bank of Canada, Statistics Canada

Data Source: Bank of Canada, Statistics Canada

## SECOND ORDER RATE OF CHANGE

RESIDENTIAL MORTGAGE CREDIT



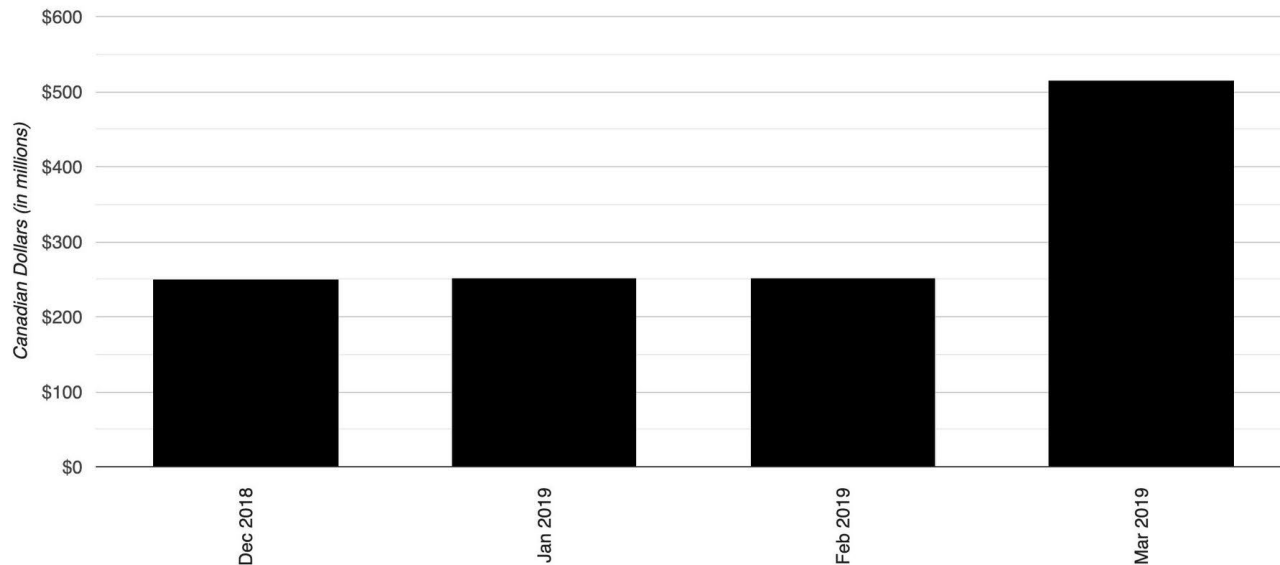
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# STEALTH STIMULUS?

## Bank of Canada Assets: Canada Mortgage Bonds

*The dollar value of Canada Mortgage Bonds held by the Bank of Canada, in millions of Canadian dollars.*



*Source: Bank of Canada, Better Dwelling.*

Not quite yet ready to cut rates from an already lowly level, the Bank of Canada, purchased C\$250M in Canada Mortgage Bonds in March, monetizing the federally-insured, asset-backed debt instruments.

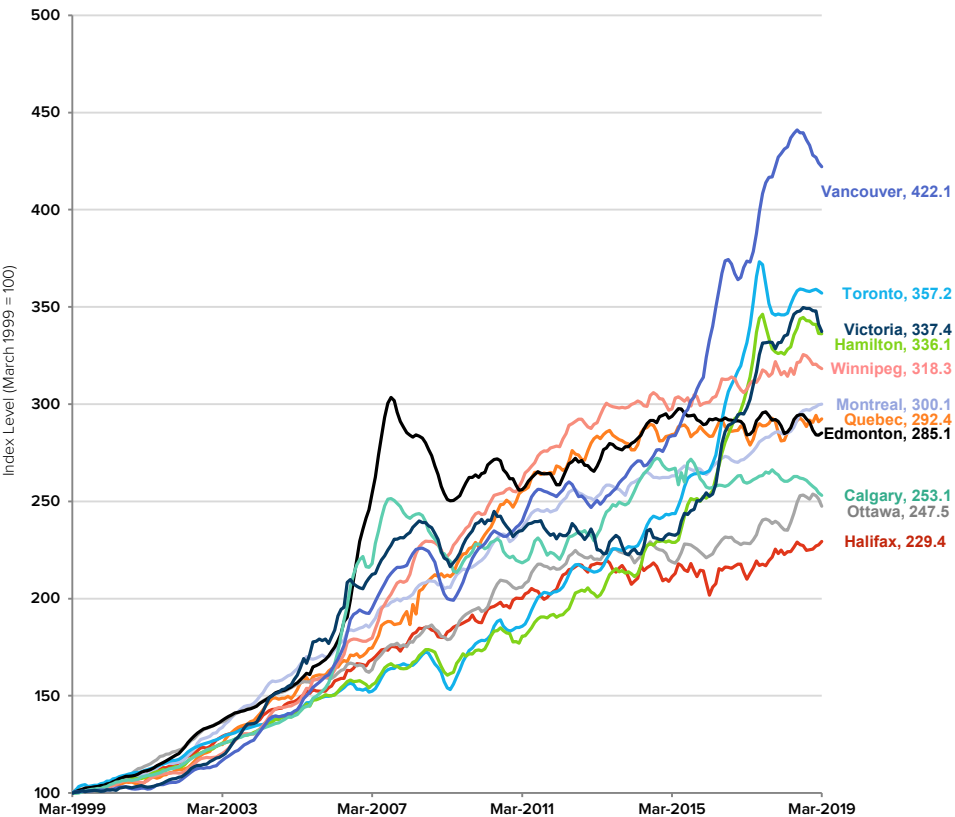
While some may say this is mere balance sheet diversification on behalf of the central bank, we think it is noteworthy at this juncture.

The background of the slide is a photograph of a sunset over a mountain range. Several hot air balloons are visible in the sky, their silhouettes dark against the bright orange and yellow light of the setting sun. The sun is positioned on the left side of the frame, near the horizon. The mountains in the foreground are also silhouetted against the bright light.

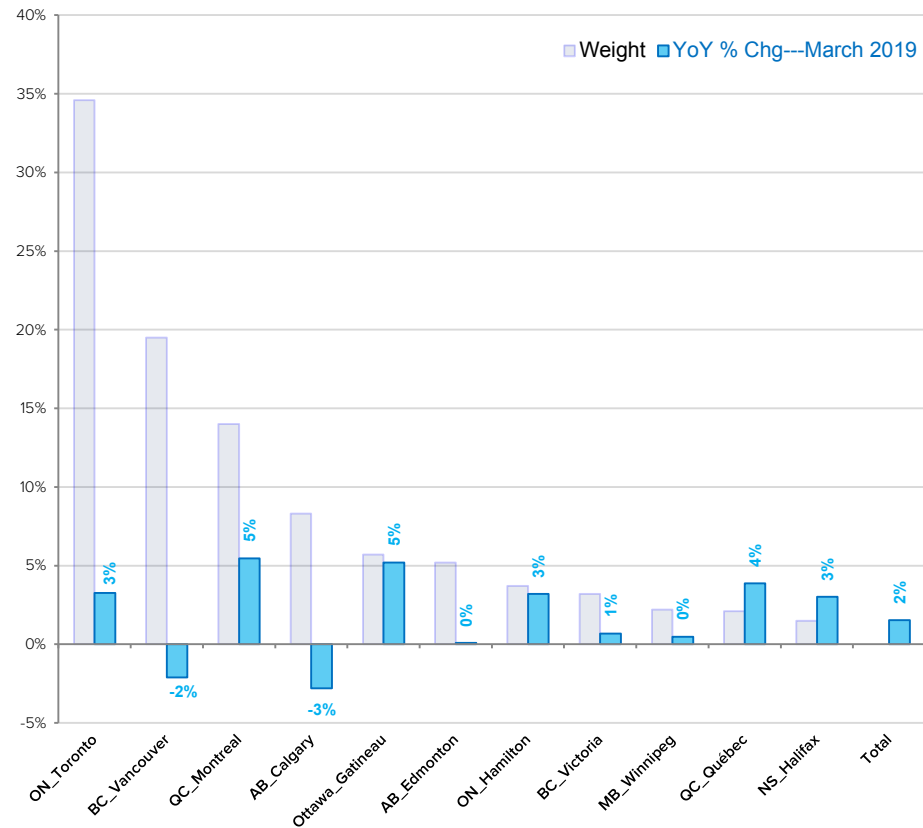
## **REGIONAL ANALYSIS**

# THE LAY OF THE LAND THROUGH THE OPTIMISTIC LENS OF THE TERANET HPI

## CANADIAN HOME PRICES BY MAJOR CITY (1999-PRESENT)



## TERANET 11-CITY HOME PRICE INDEX WEIGHTS & ROC

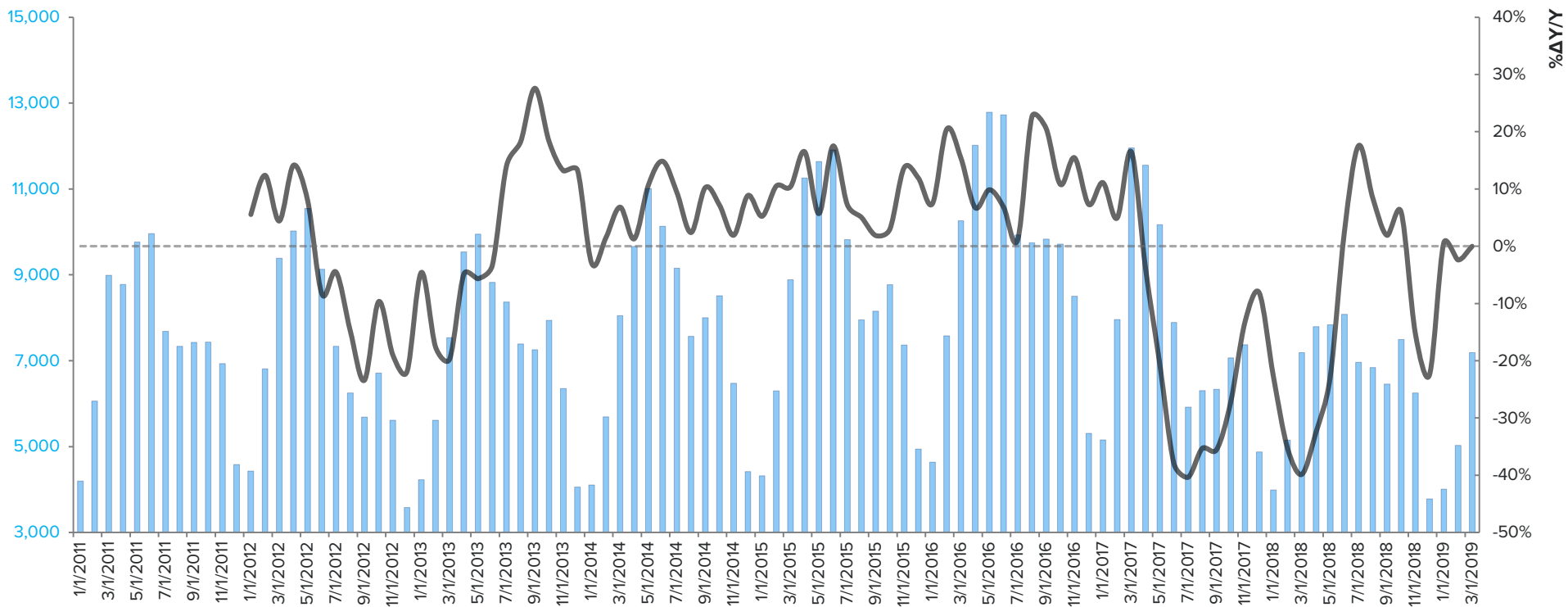




# TORONTO

# EXISTING HOME SALES

GREATER TORONTO AREA

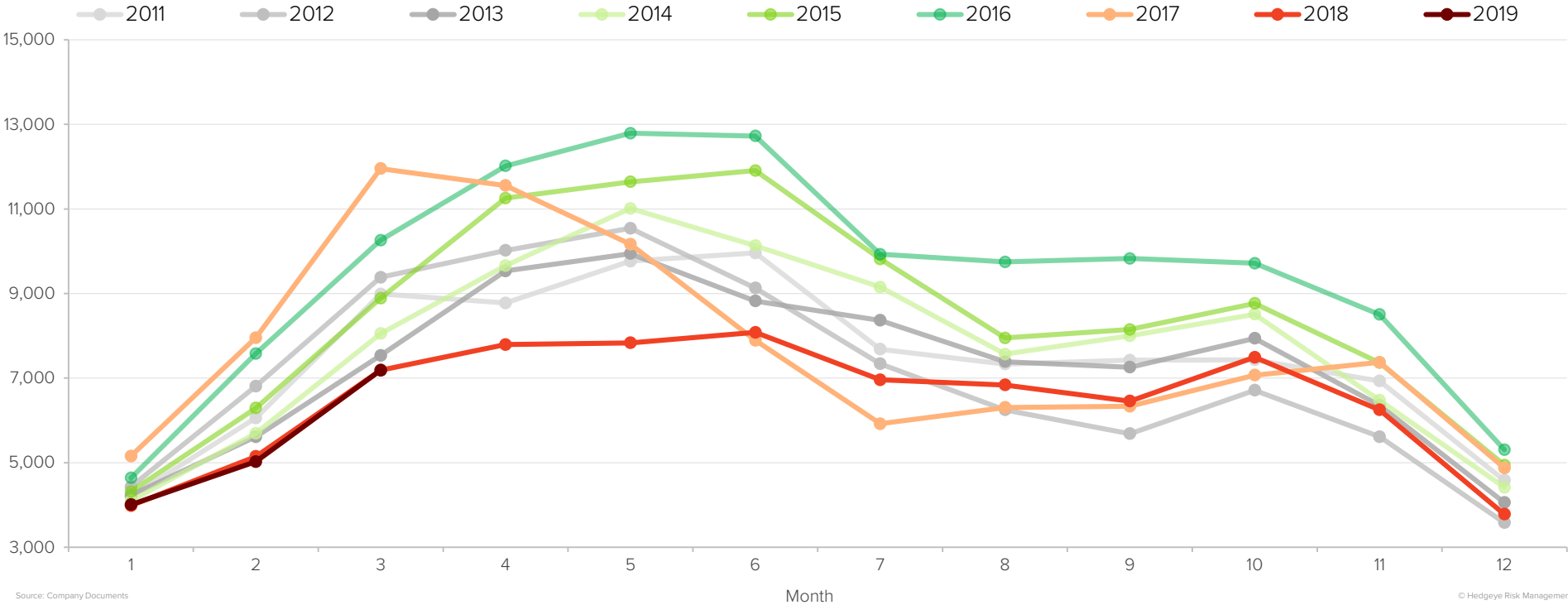


## DEAD CAT BOUNCE

After a revival in mid-2018, Toronto sales have again slowed.

# EXISTING HOME SALES, STACK

GREATER TORONTO AREA

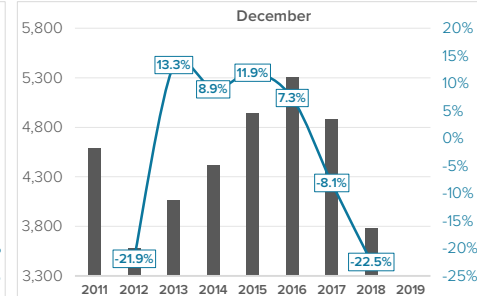
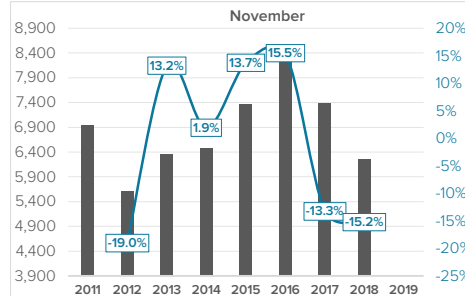
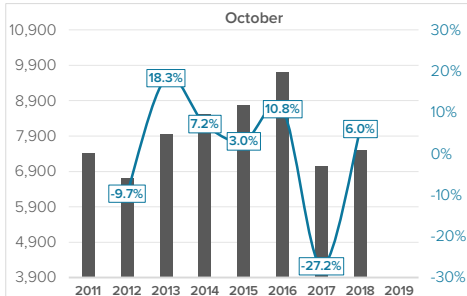
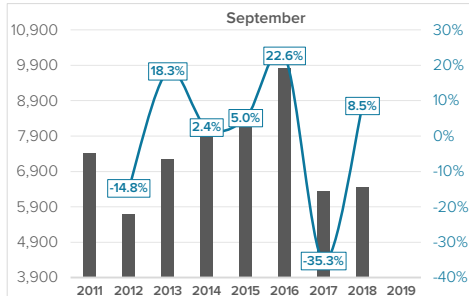
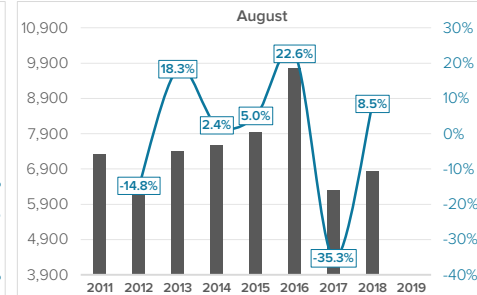
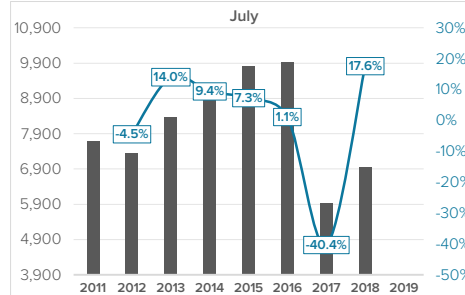
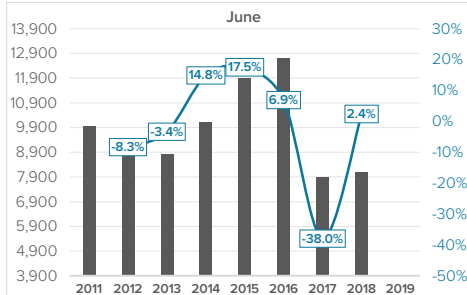
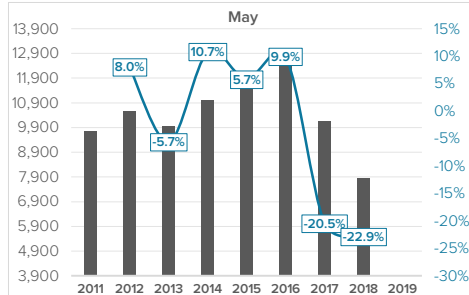
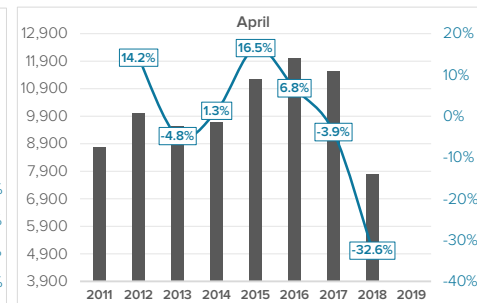
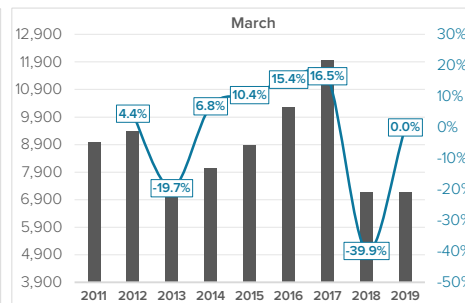
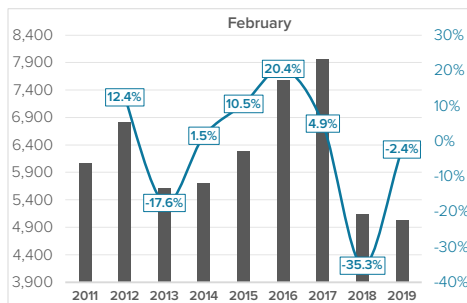
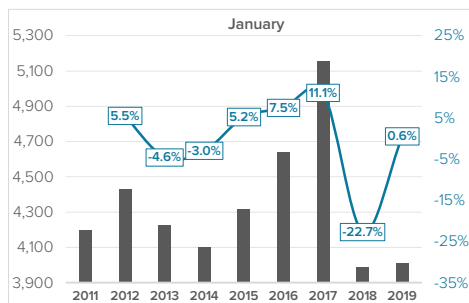


## BOTTOM-DWELLING

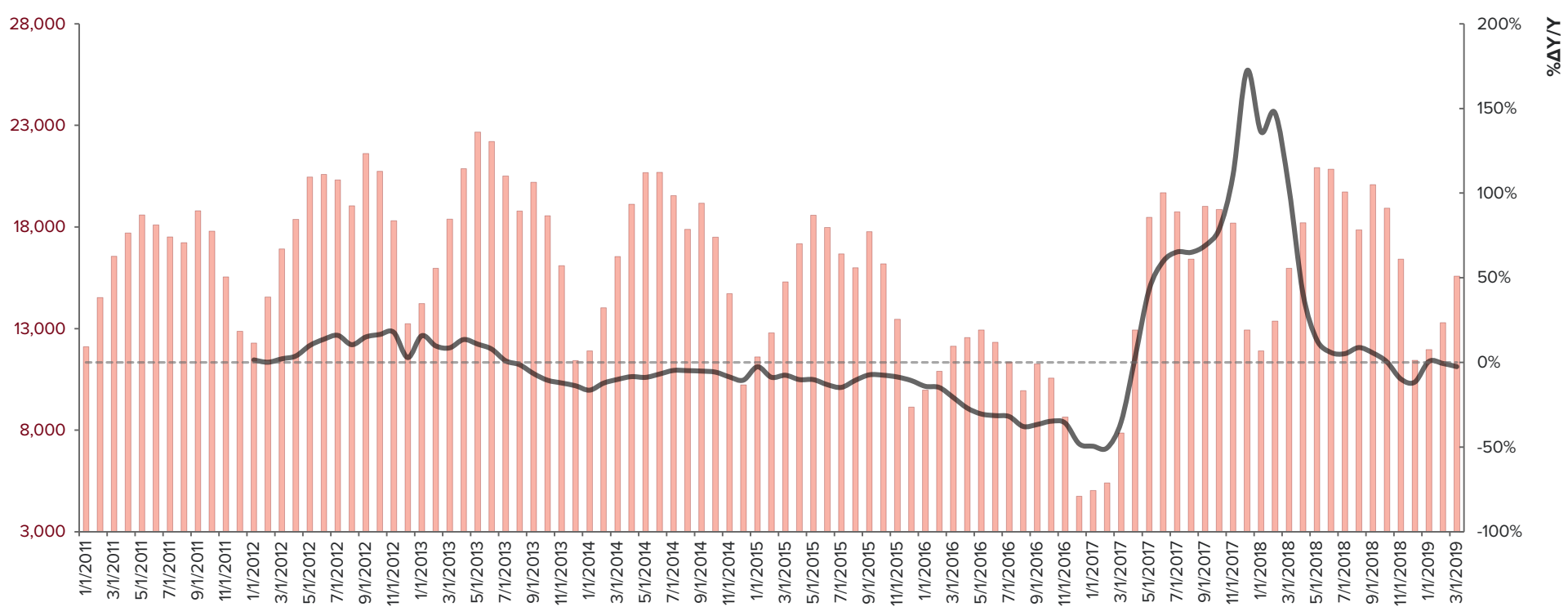
Sales volumes reside at the lows of the past 9 years.

# EXISTING HOME SALES, BY MONTH

GREATER TORONTO AREA





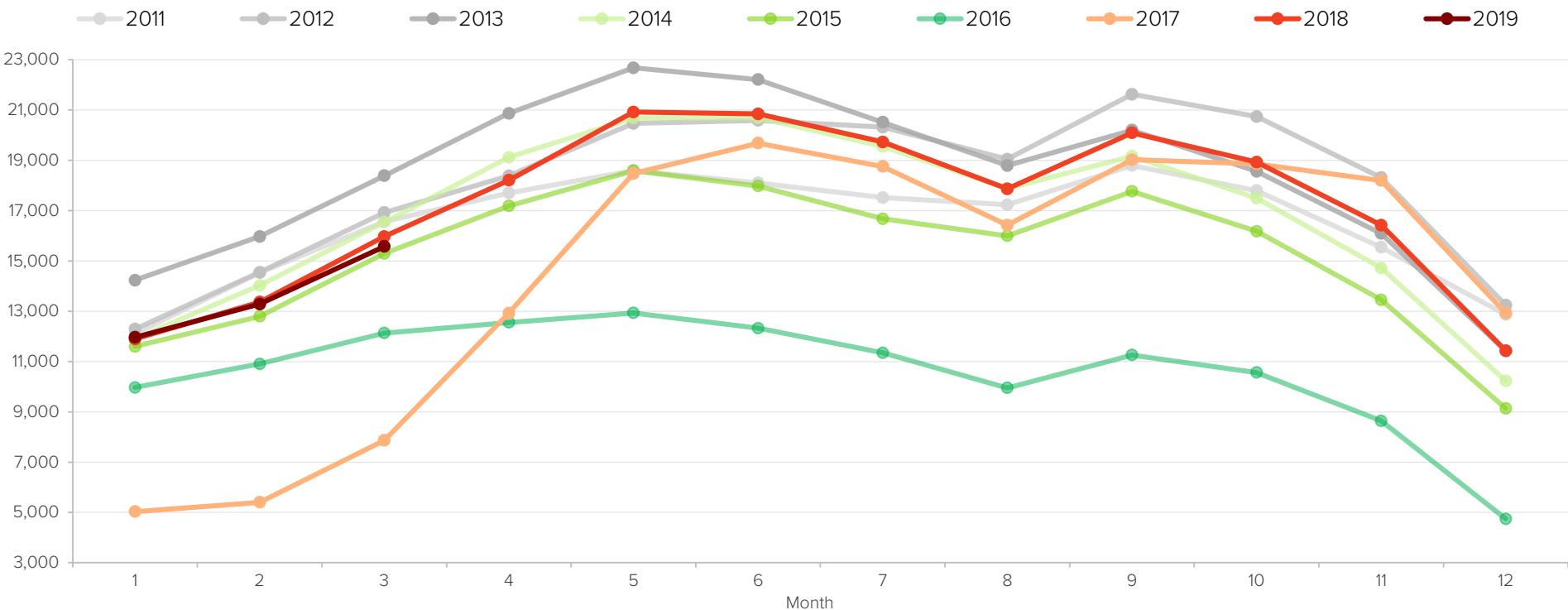


NORMALIZING INVENTORIES

Inventories continue to rise to historical averages.

# ACTIVE LISTINGS, BY MONTH

GREATER TORONTO AREA

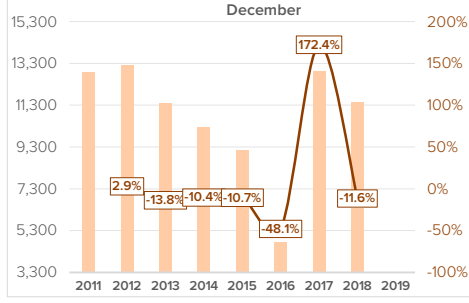
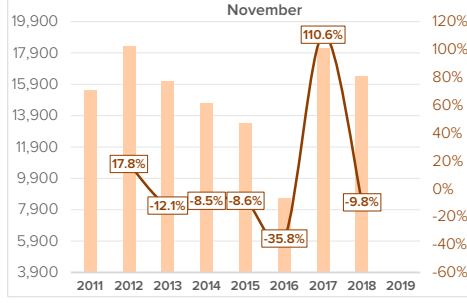
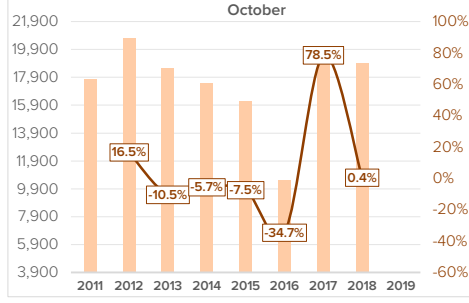
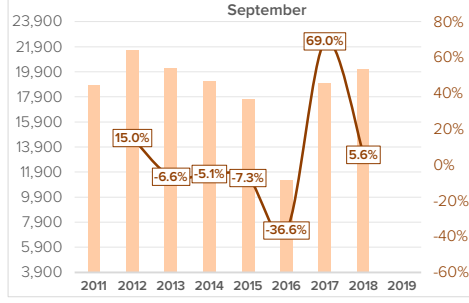
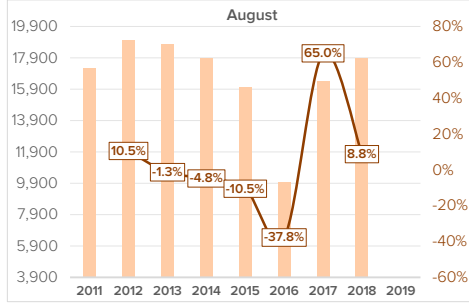
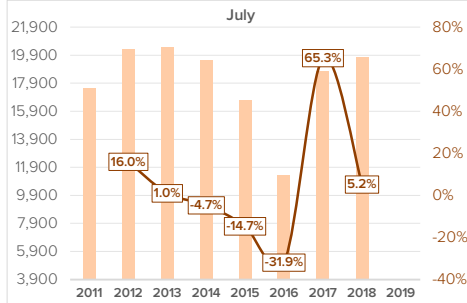
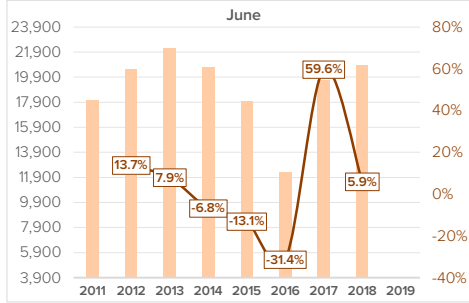
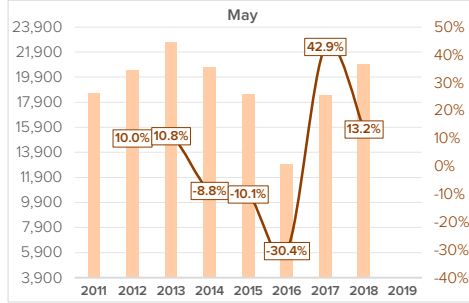
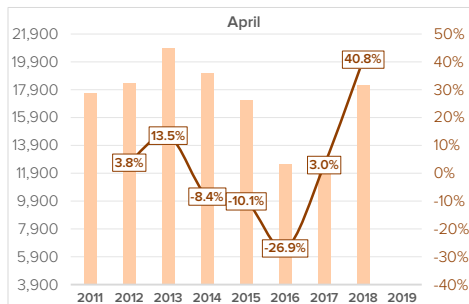
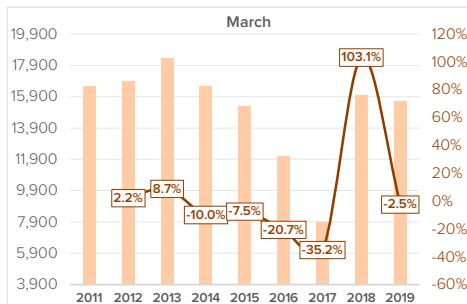
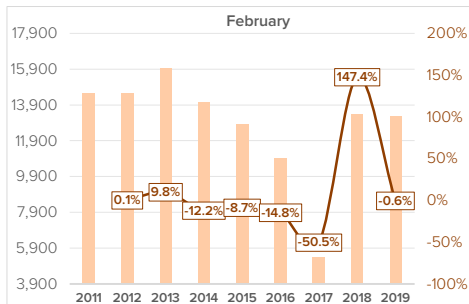
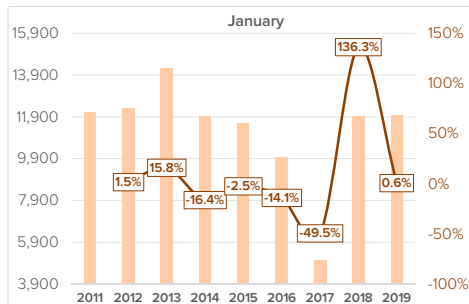


## CLIMBING UP

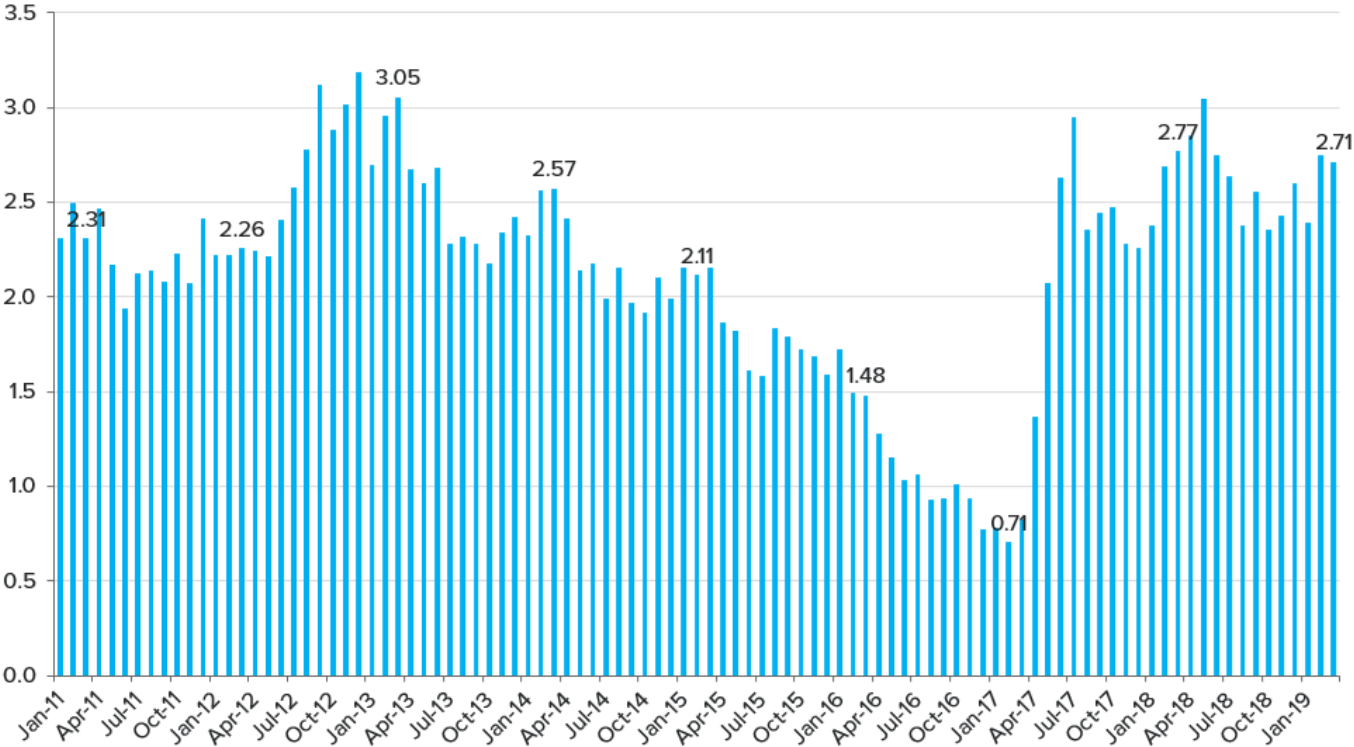
Inventories have so far normalized in the middle of the 9-year historical pack, after having consecutively declined from 2013-2016.

# ACTIVE LISTINGS, BY MONTH

## GREATER TORONTO AREA



GREATER TORONTO AREA: MONTHS OF SUPPLY (ADJUSTED FOR SEASONALITY)



Source: Toronto Real Estate Board

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A meaningful build up in supply.

## GTA: Adjusted Months Supply Sensitivity Analysis

### Change in Unit Inventory

Change in Unit Sales		Change in Unit Inventory												
		-10%	-5%	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	10%	2.49	2.63	2.77	2.91	3.05	3.19	3.32	3.46	3.60	3.74	3.88	4.02	4.15
	5%	2.61	2.76	2.90	3.05	3.19	3.34	3.48	3.63	3.77	3.92	4.06	4.21	4.35
	0%	2.74	2.89	3.05	3.20	3.35	3.50	3.66	3.81	3.96	4.11	4.27	4.42	4.57
	-5%	2.89	3.05	3.21	3.37	3.53	3.69	3.85	4.01	4.17	4.33	4.49	4.65	4.81
	-10%	3.05	3.22	3.39	3.55	3.72	3.89	4.06	4.23	4.40	4.57	4.74	4.91	5.08
	-15%	3.23	3.41	3.58	3.76	3.94	4.12	4.30	4.48	4.66	4.84	5.02	5.20	5.38
	-20%	3.43	3.62	3.81	4.00	4.19	4.38	4.57	4.76	4.95	5.14	5.33	5.52	5.71
	-25%	3.66	3.86	4.06	4.27	4.47	4.67	4.88	5.08	5.28	5.48	5.69	5.89	6.09
	-30%	3.92	4.14	4.35	4.57	4.79	5.01	5.22	5.44	5.66	5.88	6.09	6.31	6.53
	-35%	4.22	4.45	4.69	4.92	5.16	5.39	5.63	5.86	6.09	6.33	6.56	6.80	7.03
	-40%	4.57	4.82	5.08	5.33	5.59	5.84	6.09	6.35	6.60	6.86	7.11	7.36	7.62
	-45%	4.99	5.26	5.54	5.82	6.09	6.37	6.65	6.92	7.20	7.48	7.76	8.03	8.31
	-50%	5.48	5.79	6.09	6.40	6.70	7.01	7.31	7.62	7.92	8.23	8.53	8.84	9.14

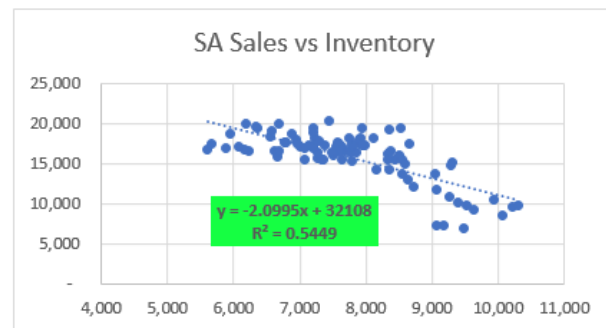
Key:  $y = -0.10x + 0.30$

Months Supply

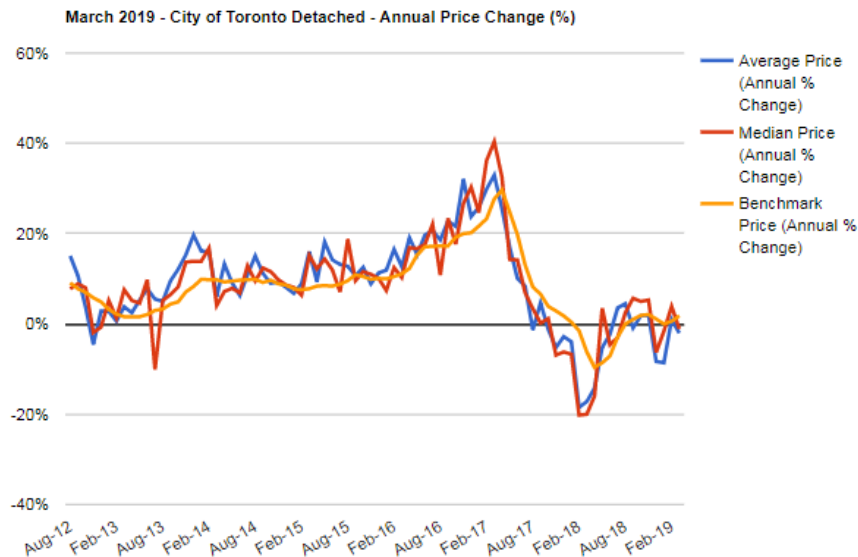
0.50	=	25%
1.00	=	20%
1.50	=	15%
2.00	=	10%
2.50	=	5%
3.00	=	0%
3.50	=	-5%
4.00	=	-10%
4.50	=	-15%
5.00	=	-20%
5.50	=	-25%
6.00	=	-30%

Home Price %ΔY/Y

\*\* SA Sales Changes Explain ~54% of SA Inventory Changes \*\*

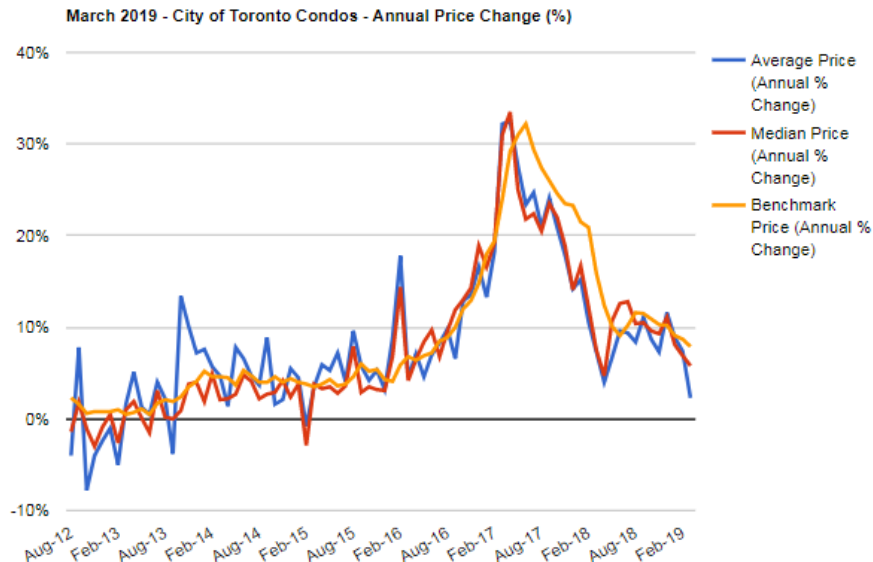


# PRICE IMPACTS ACROSS THE GTA



## CITY OF TORONTO DETACHED HOMES

At worst, those who bought in March 2017 saw their homes lose ~ -20% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.57M, \$1.26M, and \$1.17M, respectively.

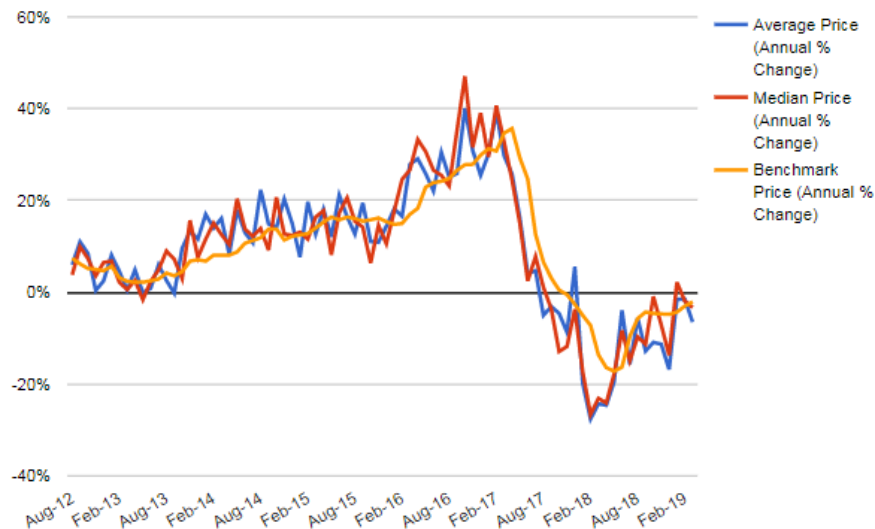


## CITY OF TORONTO CONDOS

Despite declining sales, condominium prices have held steady as sellers have not yet capitulate.

# PRICE IMPACTS ACROSS THE GTA CONT.

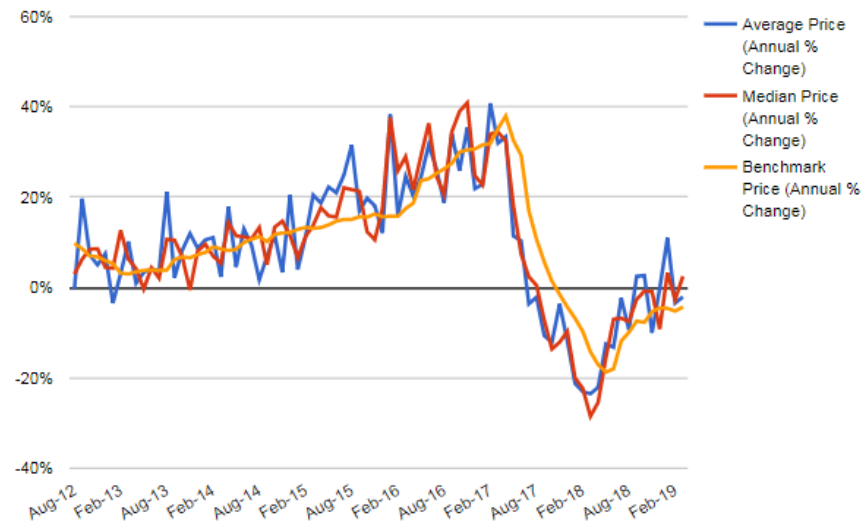
March 2019 - Markham Detached - Annual Price Change (%)



## MARKHAM DETACHED

Those who bought in March 2017 saw their homes lose ~ -27.6% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.68M, \$1.26M, and \$1.17M, respectively.

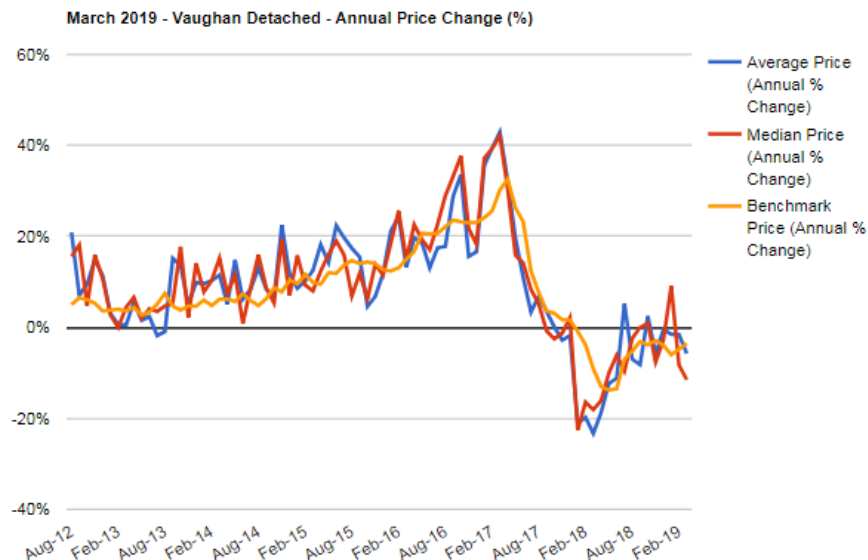
March 2019 - Richmond Hill Detached - Annual Price Change (%)



## RICHMOND HILL DETACHED

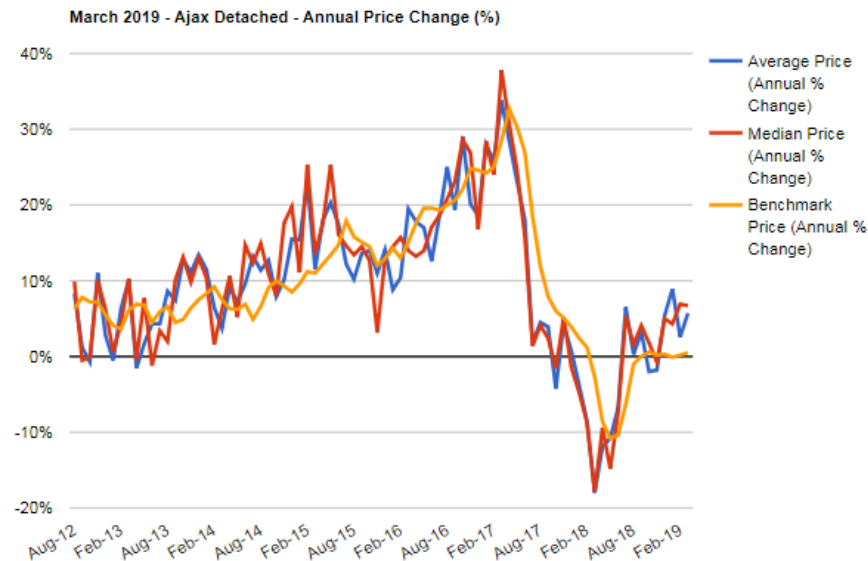
At worst, those who bought in March 2017 saw their homes lose ~ -28.5% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.84M, \$1.68M, and \$1.45M, respectively.

# PRICE IMPACTS ACROSS THE GTA CONT.



## VAUGHN DETACHED

Those who bought in March 2017 saw their homes lose ~ -23% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.61M, \$1.45M, and \$1.13M, respectively.

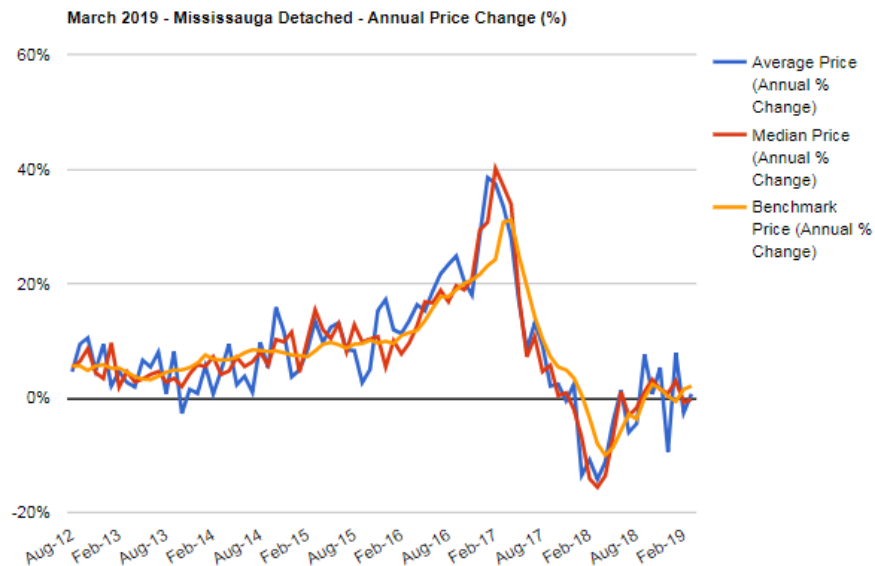


## AJAX DETACHED

At worst, those who bought in March 2017 saw their homes lose ~ -17.8% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$842K, \$821K, and \$669K, respectively.

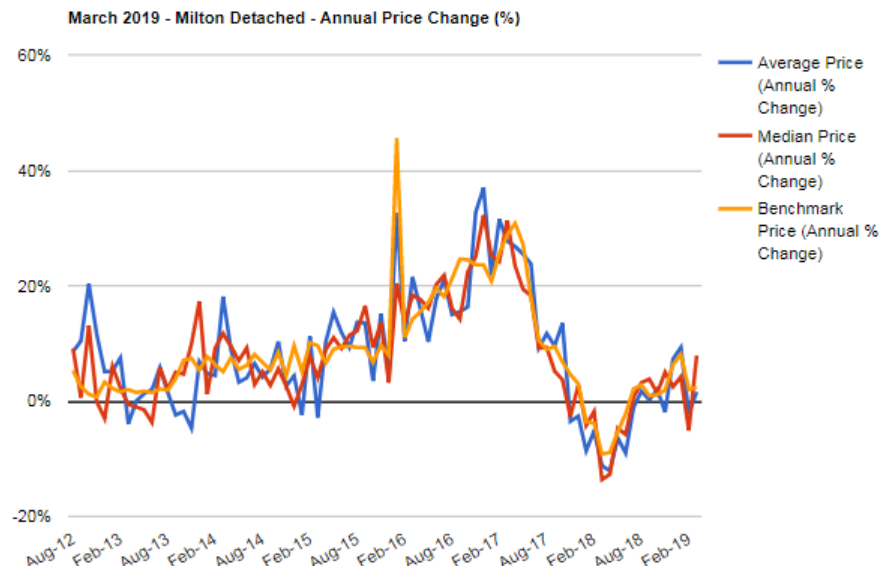


# PRICE IMPACTS ACROSS THE GTA CONT.



## MISSISSAUGA DETACHED

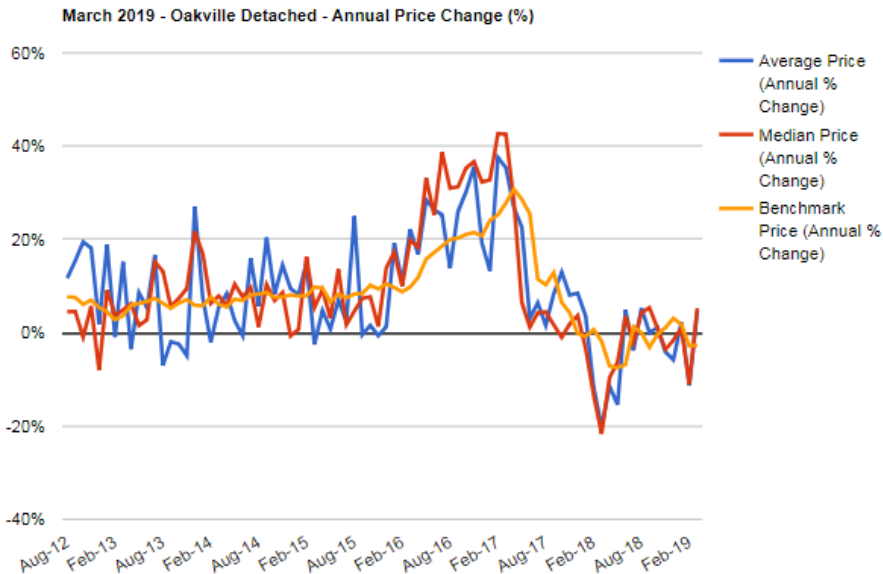
Those who bought in March 2017 saw their homes lose ~ -15.6% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.25M, \$1.13M, and \$1.06M, respectively.



## MILTON DETACHED

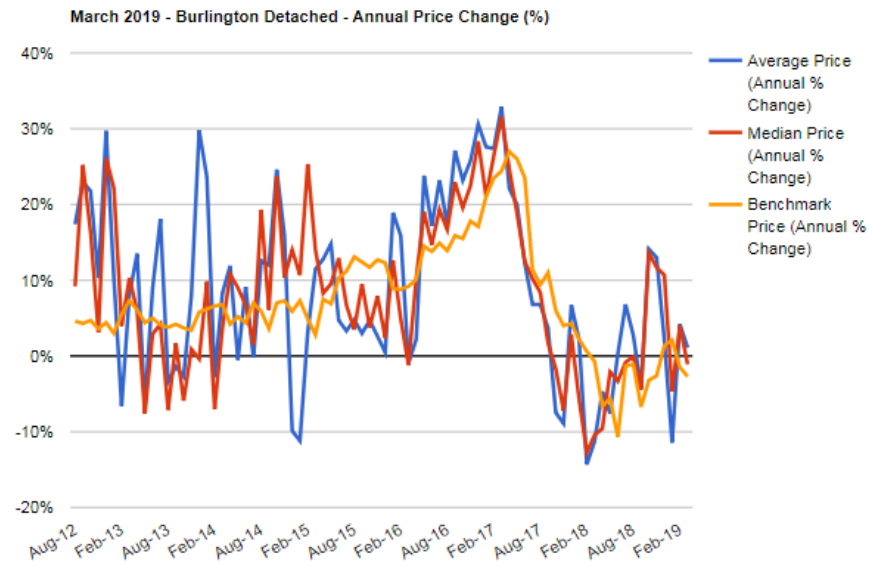
At worst, those who bought in March 2017 saw their homes lose ~ -17.8% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$978K, \$933K, and \$881K, respectively.

# PRICE IMPACTS ACROSS THE GTA CONT.



## OAKVILLE DETACHED

Those who bought in March 2017 saw their homes lose ~ -21.7% in one year. The average, median, and benchmark prices of a detached home in March of 2017 were \$1.63M, \$1.48M, and \$1.18M, respectively.



## BURLINGTON DETACHED

At worst, those who bought in February 2017 saw their homes lose ~ -14.3% in one year. The average, median, and benchmark prices of a detached home in February of 2017 were \$1.03M, \$925K, and \$873K, respectively.

# A FEW ANECDOTES



**Sold - \$885,000**  
List price: \$989,900  
Sale to list price: 89%  
Listing date: June 28, 2018  
Sold date: April 16, 2019  
Time on market: 292 days

5 Tailor St, Markham

4 🏠 | 3 🚗 | 4 🏊

Property type: Detached House  
Building type: 2-Storey  
Square footage: No data



**Sold - \$1,480,000**  
List price: \$1,188,000  
Sale to list price: 125%  
Listing date: March 21, 2017  
Sold date: March 28, 2017  
Time on market: 7 days


20 Tailor St, Markham

4 🏠 | 3 🚗 | 2 🏊

Property type: Detached House  
Building type: 2-Storey  
Square footage: 2500-3000

## TWO HOMES, SAME STREET

While no two houses are the same, even on the same street, someone is still eating a considerable loss here. The house on the left is not renovated at all, so let's generously throw in \$200K for renovations – that's still an implied loss of \$395K or -27%.




**Sold - \$1,330,000**  
List price: \$1,488,800  
Sale to list price: 89%  
Listing date: April 9, 2019  
Sold date: April 10, 2019  
Time on market: 1 days

221 Grandview Ave, Markham

5+2 🏠 | 4 🚗 | 4 🏊

Property type: Detached House  
Building type: Backsplit 4  
Square footage: 2000-2500



**Sold - \$2,058,800**  
List price: \$1,988,000  
Sale to list price: 104%  
Listing date: April 18, 2017  
Sold date: May 2, 2017  
Time on market: 14 days

221 Grandview Ave, Markham


5+2 🏠 | 4 🚗 | 4 🏊

Property type: Detached House  
Building type: Backsplit 4  
Square footage: 2000-2500

## SAME HOME, -\$730K LOSS


Buying at the peak and taking a -35% haircut two years later – brutal, to say the least.

# A FEW ANECDOTES



**Sold - \$865,000**  
List price: \$945,000  
Sale to list price: 92%  
Listing date: November 25, 2018  
**Sold date: April 6, 2019**  
5 days ago  
Time on market: 131 days

340 Skopit Rd, Richmond Hill  
3+2 | 2 | 4  
Property type: Detached House  
Building type: Bungalow  
Square footage: 1100-1500




**Sold - \$1,158,000**  
List price: \$948,000  
Sale to list price: 122%  
Listing date: April 28, 2016  
**Sold date: May 5, 2016**  
2 years, 11 months ago  
Time on market: 7 days

320 Skopit Rd, Richmond Hill  
3+1 | 2 | 6  
Property type: Detached House  
Building type: Bungalow  
Square footage: No data


## TWO HOMES, SAME STREET

Implied loss of -25% on nearly identical home.



**Sold - \$1,250,000**  
List price: \$1,358,888  
Sale to list price: 92%  
Listing date: January 3, 2019  
**Sold date: March 27, 2019**  
5 days ago  
Time on market: 82 days

93 Emmeloord Cres, Markham  
4 | 4 | 6  
Property type: Detached House  
Building type: 2-Storey  
Square footage: No data




**Sold - \$1,500,000**  
List price: \$1,598,000  
Sale to list price: 94%  
Listing date: June 28, 2016  
**Sold date: July 17, 2016**  
2 years, 8 months ago  
Time on market: 19 days

93 Emmeloord Cres, Markham  
4 | 4 | 4  
Property type: Detached House  
Building type: 2-Storey  
Square footage: 2500-3000

## SAME HOME, -\$250K LOSS


A -17% haircut on a home purchased for \$1.5M three years ago.

# A FEW ANECDOTES




**Sold - \$1,150,000**  
 List price: \$999,000  
 Sale to list price: 115%  
 Listing date: March 21, 2019  
**Sold date: March 29, 2019**  
 3 days ago  
 Time on market: 8 days

18 Pearson Ave, Richmond Hill  
 4+1 | 3 | 6  
 Property type: Detached House  
 Building type: Sidesplit 3  
 Square footage: 2000-2500




**Sold - \$1,855,000**  
 List price: \$1,589,900  
 Sale to list price: 117%  
 Listing date: May 27, 2016  
**Sold date: June 1, 2016**  
 2 years, 10 months ago  
 Time on market: 5 days

150 Garden Ave, Richmond Hill  
 3 | 3 | 4  
 Property type: Detached House  
 Building type: Backsplit 4  
 Square footage: No data



**Sold - \$1,360,000**  
 List price: \$1,278,000  
 Sale to list price: 106%  
 Listing date: March 25, 2019  
**Sold date: March 28, 2019**  
 3 days ago  
 Time on market: 3 days

26 Winlock Park, North York  
 3 | 2 | 3  
 Property type: Detached House  
 Building type: Bungalow-Raised  
 Square footage: No data



**Sold - \$2,000,000**  
 List price: \$1,429,000  
 Sale to list price: 140%  
 Listing date: November 30, 2016  
**Sold date: December 6, 2016**  
 2 years, 3 months ago  
 Time on market: 6 days

14 Winlock Park, North York  
 3+2 | 2 | 1  
 Property type: Detached House  
 Building type: Bungalow-Raised  
 Square footage: No data

## TWO HOMES, SAME NEIGHBORHOOD


House on the right purchased for \$1.86M in June of 2016. A very similar house, one street over, bigger lot, sold for \$1.15M in March of 2019. Implied loss of -38% or -\$705K.

## TWO HOMES, SAME STREET

House on the right sold for \$2M in December of 2016. A nearly identical house, with the same lot size sold for \$1.36M in March of 2019. Implied loss of -32% or -\$640K.




# WHAT ABOUT CONDOS?




**Sold - \$380,000**  
List price: \$389,000  
Sale to list price: 98%  
**Sold date:** January 28, 2019  
27 days ago  
Days on market: 21 days

**#1401 - 335 Mill Rd,  
Etobicoke**  
3 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1200-1399




**Sold - \$400,000**  
List price: \$419,900  
Sale to list price: 95%  
**Sold date:** March 4, 2017  
2 years, 0 month ago  
Days on market: 11 days

**#1401 - 335 Mill Rd,  
Etobicoke**  
3 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1200-1399



**Sold - \$376,000**  
List price: \$378,800  
Sale to list price: 99%  
**Sold date:** February 27, 2019  
18 days ago  
Days on market: 2 days

**#1218 - 35 Trailwood Dr,  
Mississauga**  
2 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1000-1199



**Sold - \$402,000**  
List price: \$349,000  
Sale to list price: 115%  
**Sold date:** May 2, 2017  
1 year, 10 months ago  
Days on market: 3 days

**#1218 - 35 Trailwood Dr,  
Mississauga**  
2 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1000-1199


## SAME CONDO

Indeed, GTA condos have been more resilient in the correction off the highs of 2017 compared to detached homes in places like Markham, but they have not necessarily been the source of sound and steady appreciation that market zealots have made them out to be.

## SAME CONDO


Similar tale here as well.

# WHAT ABOUT CONDOS?




**Sold - \$380,000**  
List price: \$389,000  
Sale to list price: 98%  
**Listing date:** January 28, 2019  
**Sold date:** February 18, 2019  
27 days ago  
Days on market: 21 days

**#1401 - 335 Mill Rd, Etobicoke**  
3 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1200-1399



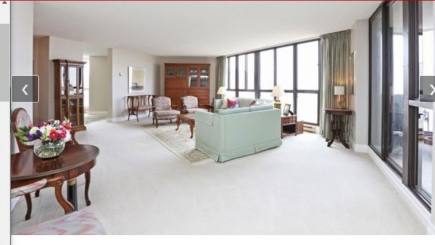
**Sold - \$400,000**  
List price: \$419,900  
Sale to list price: 95%  
**Listing date:** February 21, 2017  
**Sold date:** March 4, 2017  
2 years, 0 month ago  
Days on market: 11 days

**#1401 - 335 Mill Rd, Etobicoke**  
3 🛏 | 2 🚿 | 1 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1200-1399



**Sold - \$618,000**  
List price: \$629,888  
Sale to list price: 98%  
**Listing date:** October 21, 2018  
**Sold date:** February 22, 2019  
23 days ago  
Days on market: 124 days

**#1609 - 2000 Islington Ave, Etobicoke**  
2+1 🛏 | 2 🚿 | 2 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1800-1999



**Sold - \$650,000**  
List price: \$599,000  
Sale to list price: 109%  
**Listing date:** April 4, 2017  
**Sold date:** April 13, 2017  
1 year, 11 months ago  
Days on market: 9 days

**#1609 - 2000 Islington Ave, Etobicoke**  
2+1 🛏 | 2 🚿 | 2 🚶  
Property type: Condo Apartment  
Building type: Apartment  
Square footage: 1800-1999

## SAME CONDO

Indeed, GTA condos have been more resilient in the correction off the highs of 2017 compared to detached homes in places like Markham, but they have not necessarily been the source of sound and steady appreciation that market zealots have made them out to be.

## SAME CONDO

Similar tale here as well.

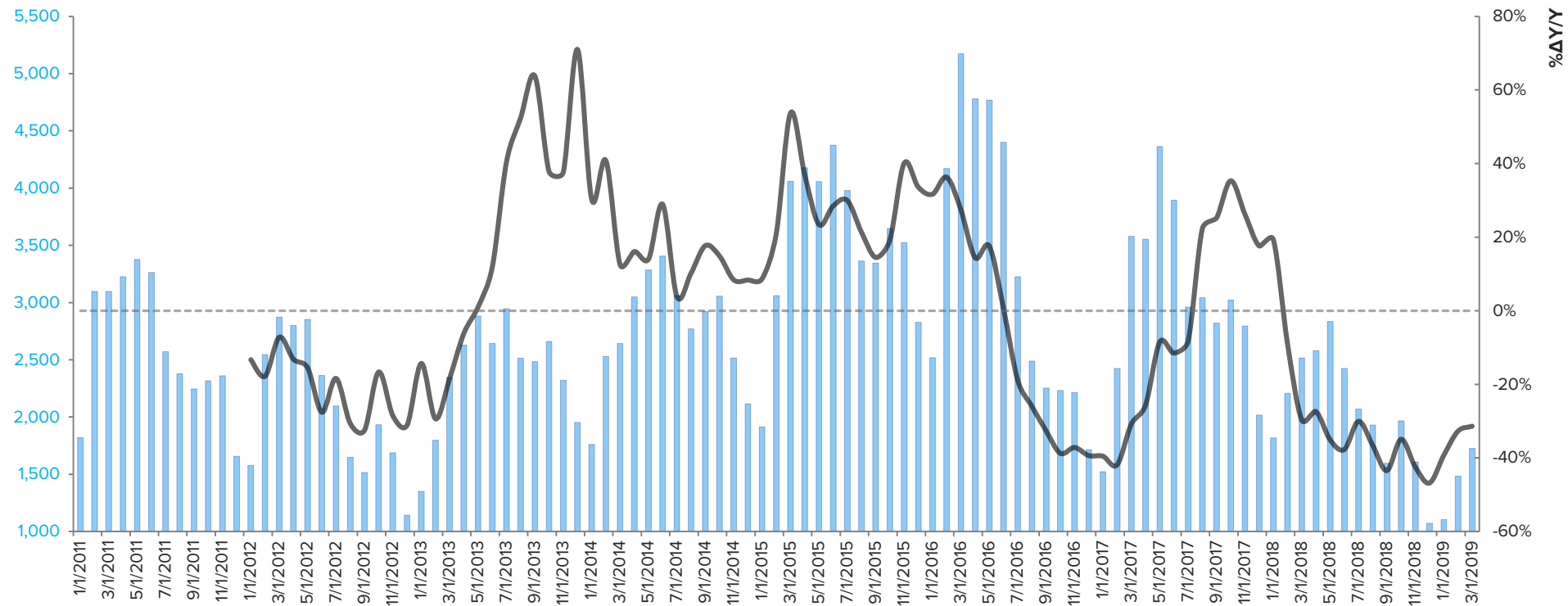


# **VANCOUVER**



# EXISTING HOME SALES, BY MONTH

METRO VANCOUVER AREA

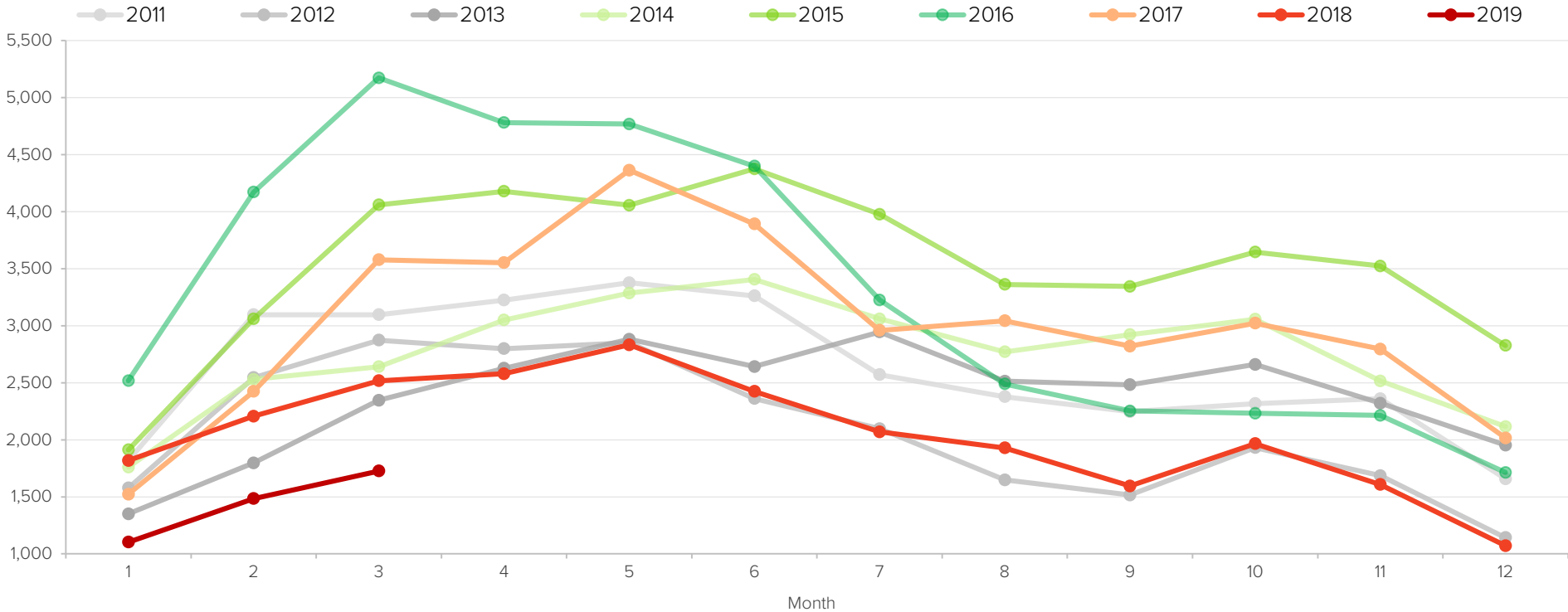


## DEAD CAT BOUNCE

Having rebounded somewhat in mid-2017, Vancouver sales volumes are back in freefall.

# EXISTING HOME SALES, STACK

METRO VANCOUVER AREA

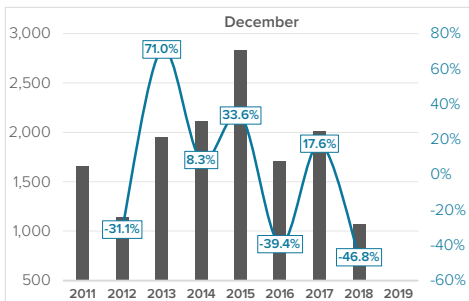
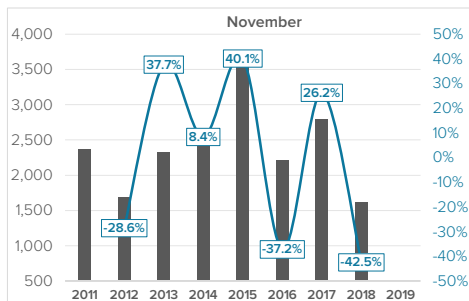
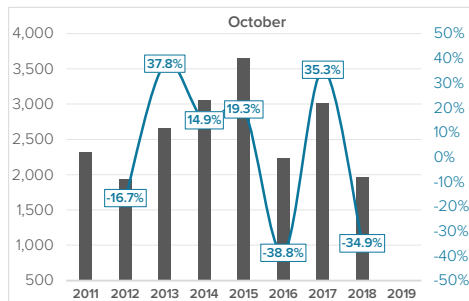
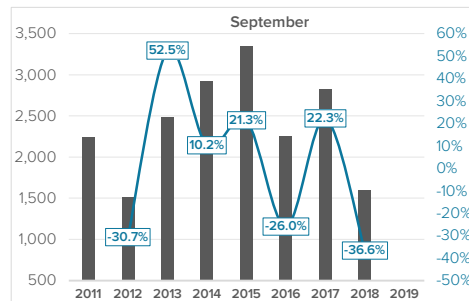
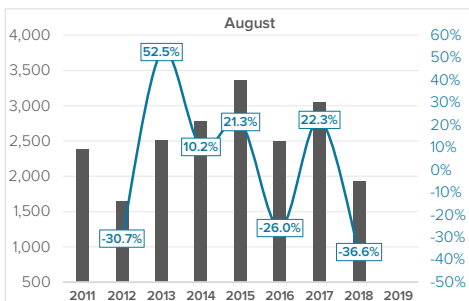
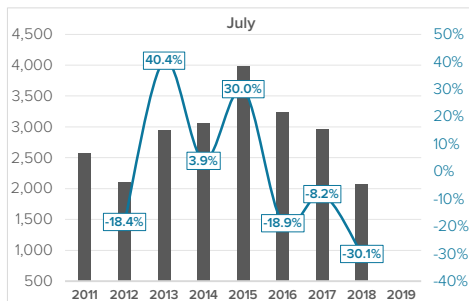
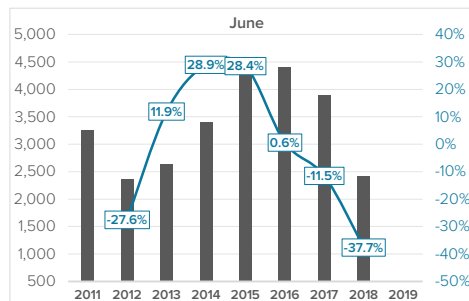
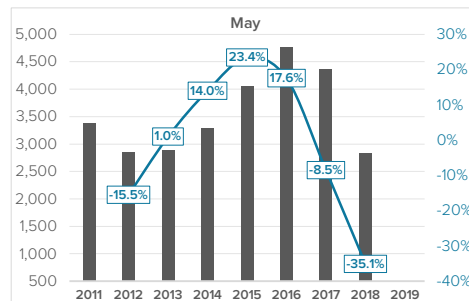
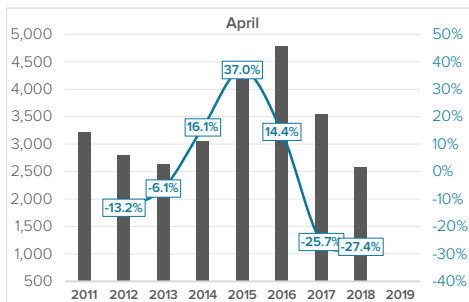
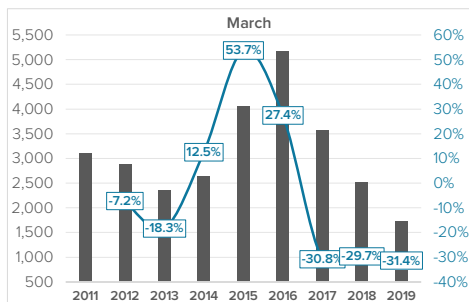
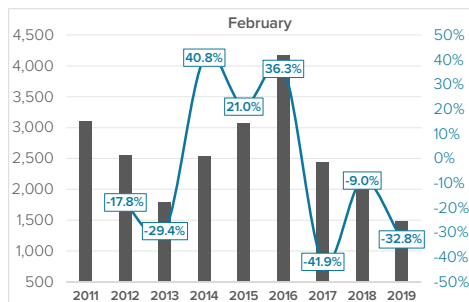
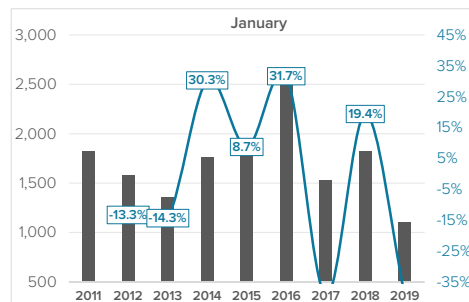


## BOTTOM DWELLING

Sales volumes reside at the lows of the past 9 years.

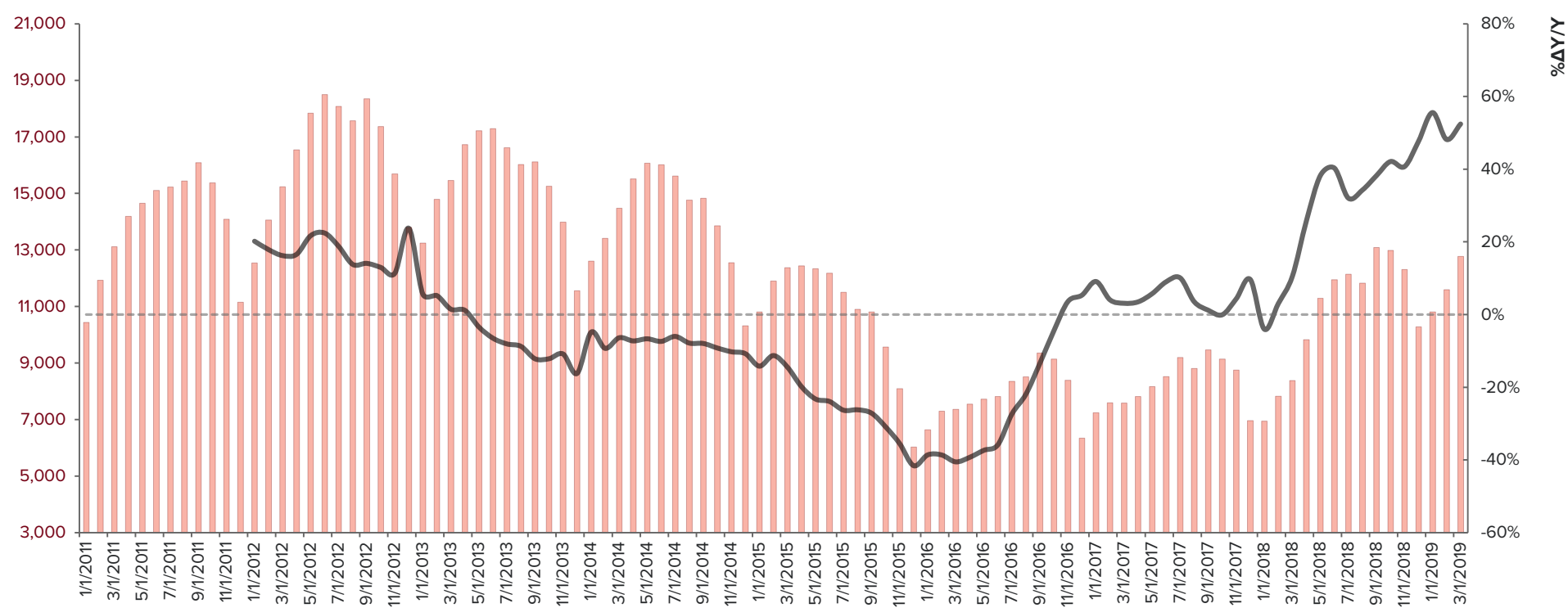
# EXISTING HOME SALES, BY MONTH

## METRO VANCOUVER AREA



# ACTIVE LISTINGS

METRO VANCOUVER AREA

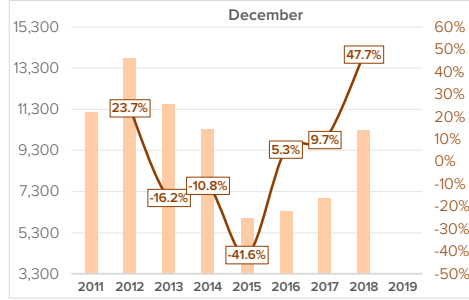
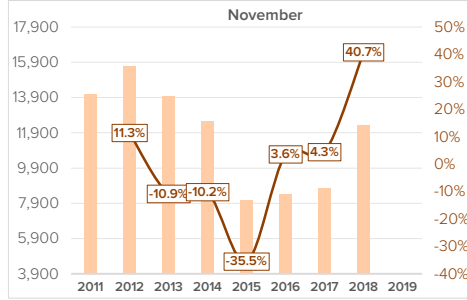
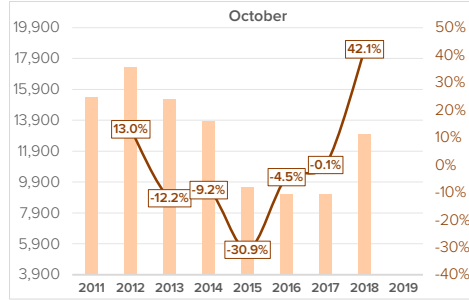
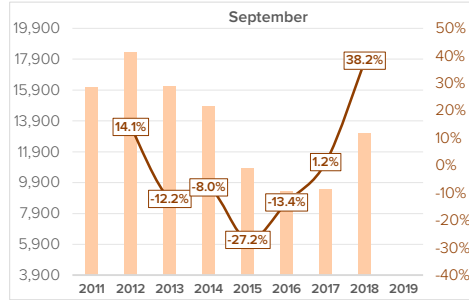
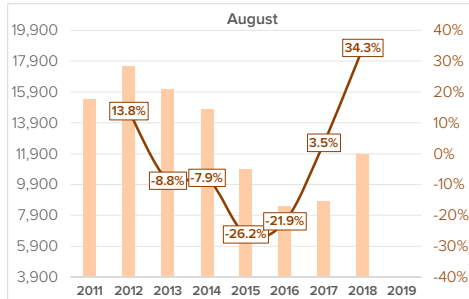
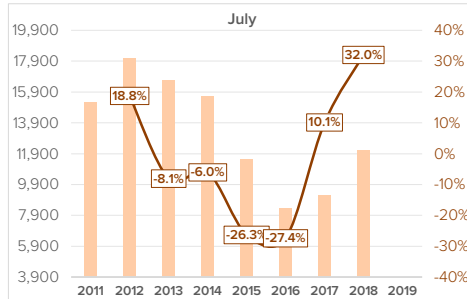
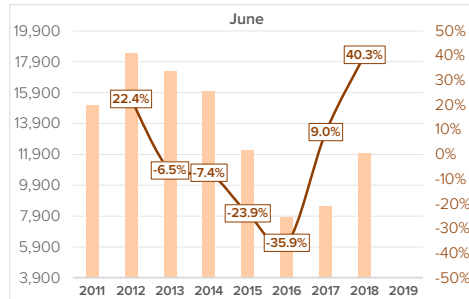
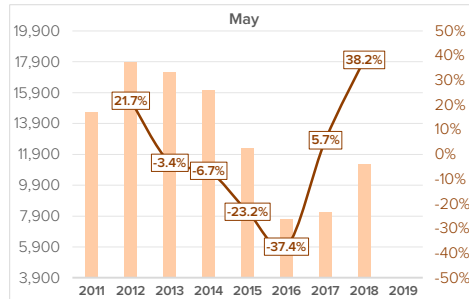
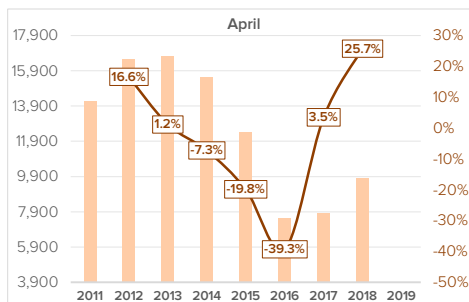
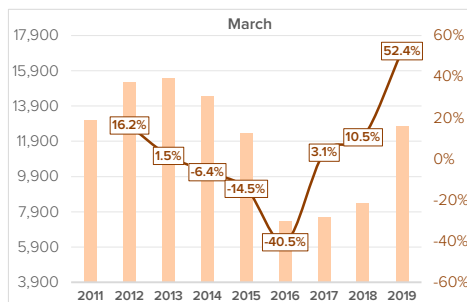
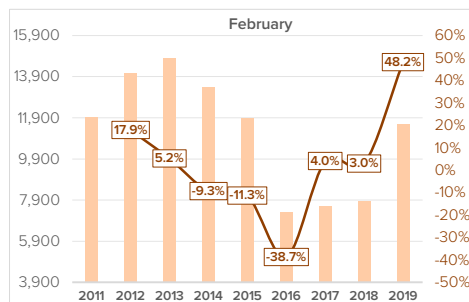
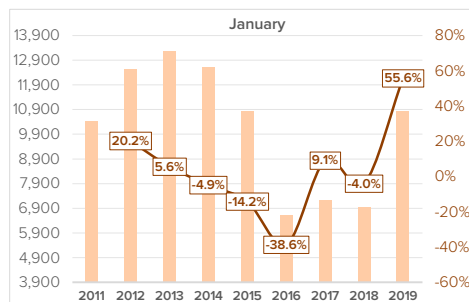


## GROWING INVENTORIES

Active listings continue to climb toward normalization.

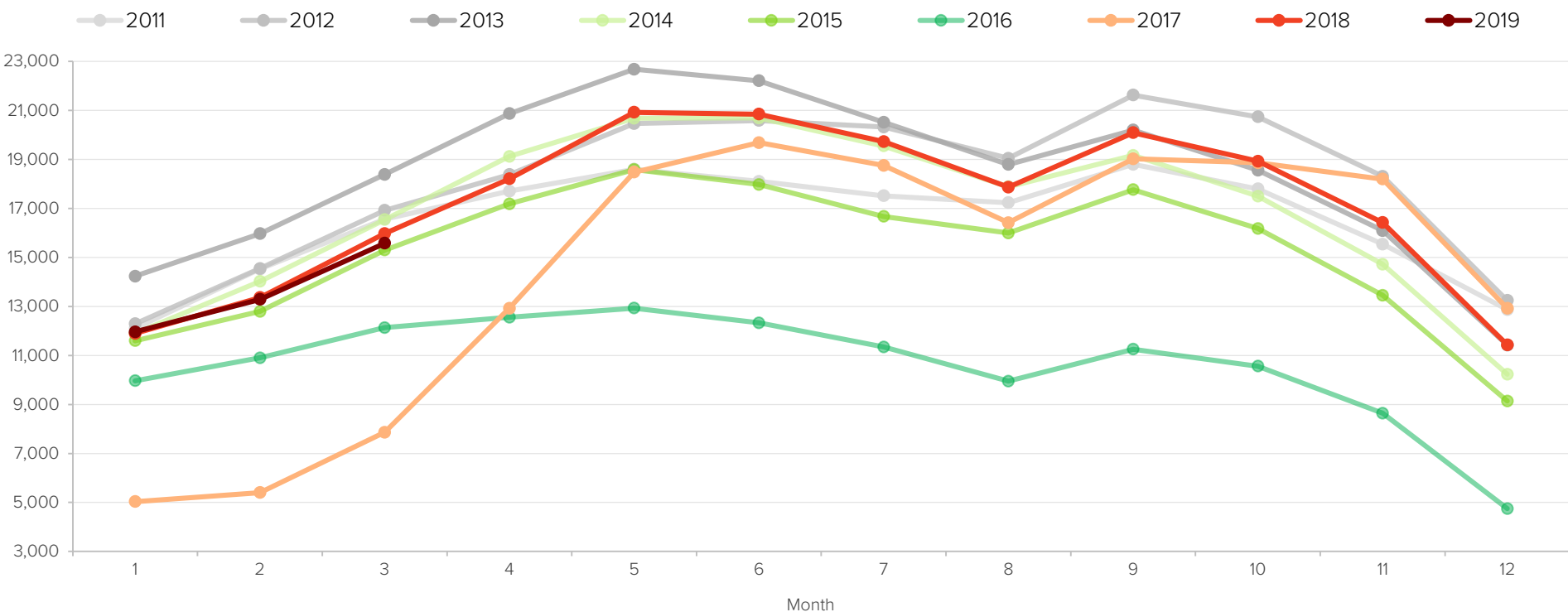
# ACTIVE LISTINGS, BY MONTH

## METRO VANCOUVER AREA



# ACTIVE LISTINGS, STACKED

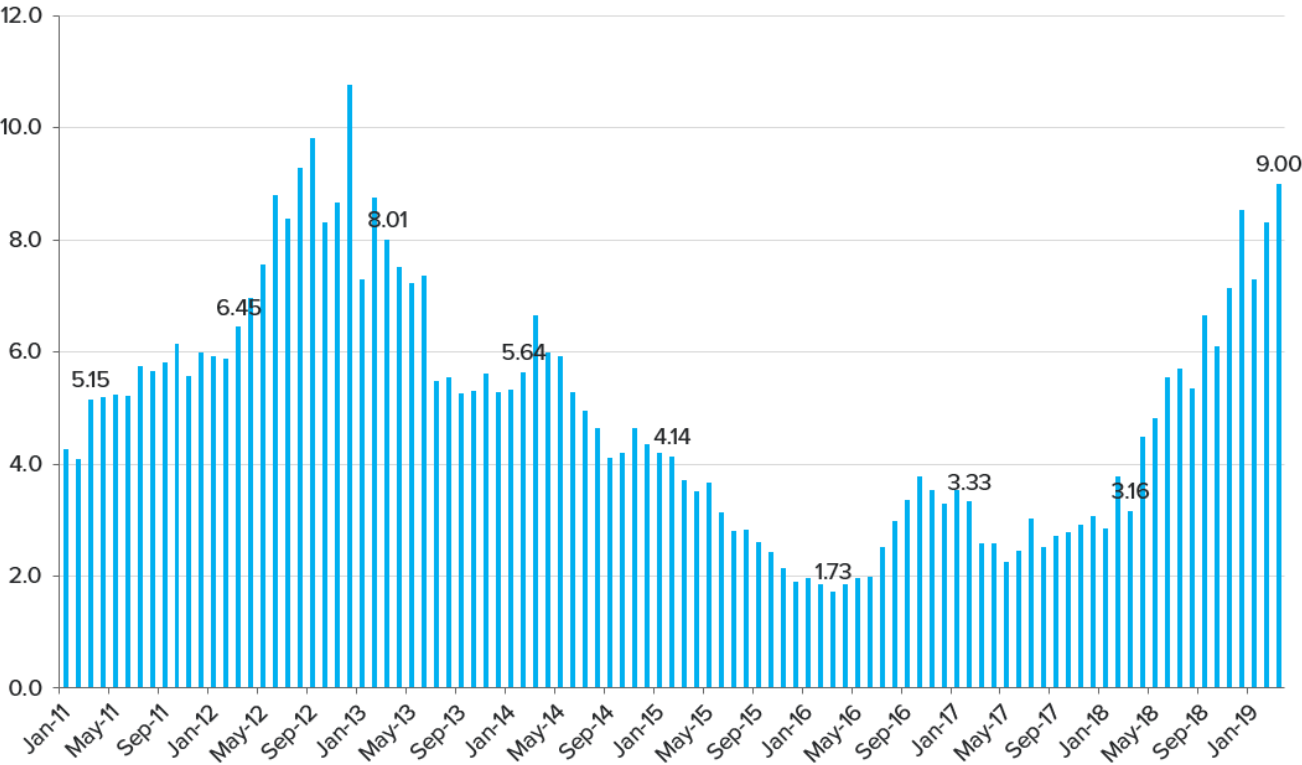
METRO VANCOUVER AREA



## RISING UP THE RANKS

Having fallen consecutively from 2013-2016, inventories have reclaimed a normalized level.

GREATER VANCOUVER: MONTHS OF SUPPLY (ADJUSTED FOR SEASONALITY)



A massive rise in supply.

Source: REBGV

© Hedgeye Risk Management

## GVA: Adjusted Months Supply Sensitivity Analysis

		Change in Unit Inventory													
Change in Unit Sales		-10%	-5%	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	
	10%	3.94	4.16	4.38	4.60	4.82	5.04	5.26	5.48	5.70	5.92	6.14	6.36	6.57	
	5%	4.13	4.36	4.59	4.82	5.05	5.28	5.51	5.74	5.97	6.20	6.43	6.66	6.89	
	0%	4.34	4.58	4.82	5.06	5.30	5.54	5.79	6.03	6.27	6.51	6.75	6.99	7.23	
	-5%	4.57	4.82	5.08	5.33	5.58	5.84	6.09	6.34	6.60	6.85	7.11	7.36	7.61	
	-10%	4.82	5.09	5.36	5.62	5.89	6.16	6.43	6.70	6.96	7.23	7.50	7.77	8.04	
	-15%	5.10	5.39	5.67	5.96	6.24	6.52	6.81	7.09	7.37	7.66	7.94	8.22	8.51	
	-20%	5.42	5.73	6.03	6.33	6.63	6.93	7.23	7.53	7.83	8.14	8.44	8.74	9.04	
	-25%	5.79	6.11	6.43	6.75	7.07	7.39	7.71	8.04	8.36	8.68	9.00	9.32	9.64	
	-30%	6.20	6.54	6.89	7.23	7.58	7.92	8.27	8.61	8.95	9.30	9.64	9.99	10.33	
	-35%	6.68	7.05	7.42	7.79	8.16	8.53	8.90	9.27	9.64	10.01	10.38	10.76	11.13	
	-40%	7.23	7.63	8.04	8.44	8.84	9.24	9.64	10.04	10.45	10.85	11.25	11.65	12.05	
	-45%	7.89	8.33	8.77	9.20	9.64	10.08	10.52	10.96	11.40	11.83	12.27	12.71	13.15	
	-50%	8.68	9.16	9.64	10.12	10.61	11.09	11.57	12.05	12.54	13.02	13.50	13.98	14.46	

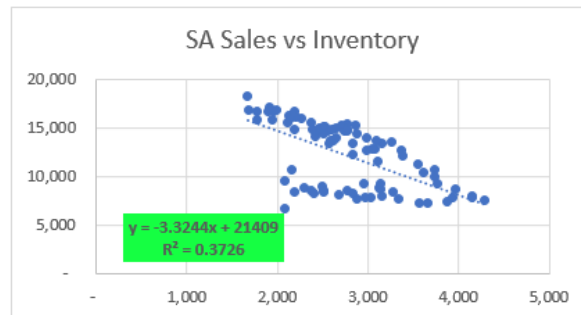
Key:  $y = -0.042x + 0.290$

Months Supply

Home Price % $\Delta$ Y/Y

\*\* SA Sales Changes Explain ~37% of SA Inventory Changes \*\*

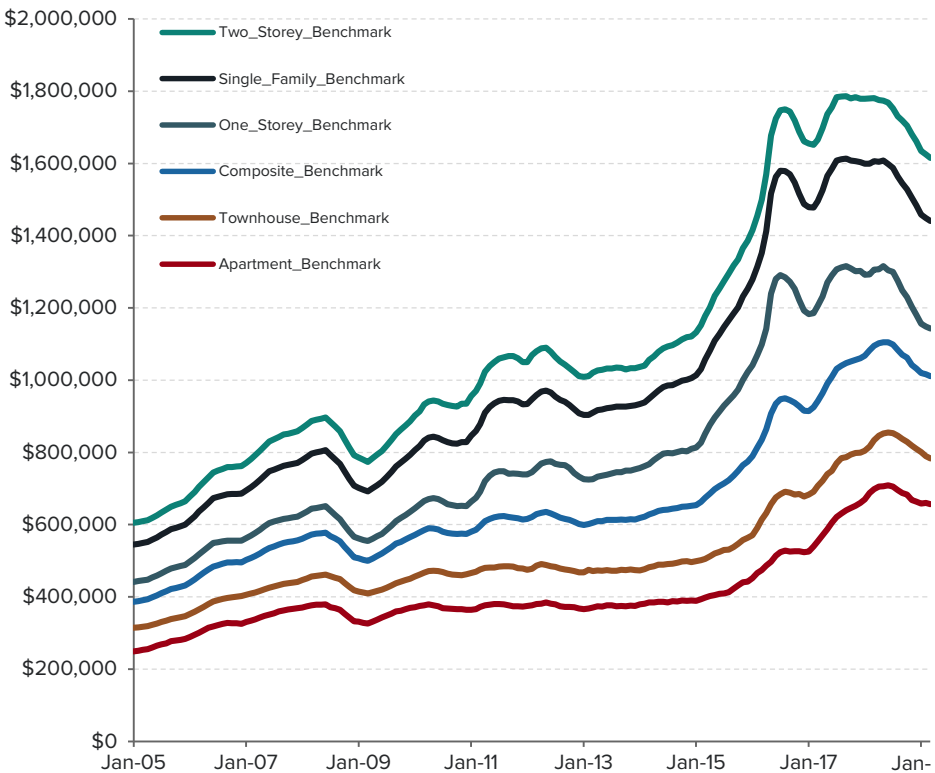
1.00	=	25%
2.00	=	21%
3.00	=	16%
4.00	=	12%
5.00	=	8%
6.00	=	4%
7.00	=	0%
8.00	=	-5%
9.00	=	-9%
10.00	=	-13%
11.00	=	-17%
12.00	=	-21%





# PRICING DYNAMICS: ROLLING OVER

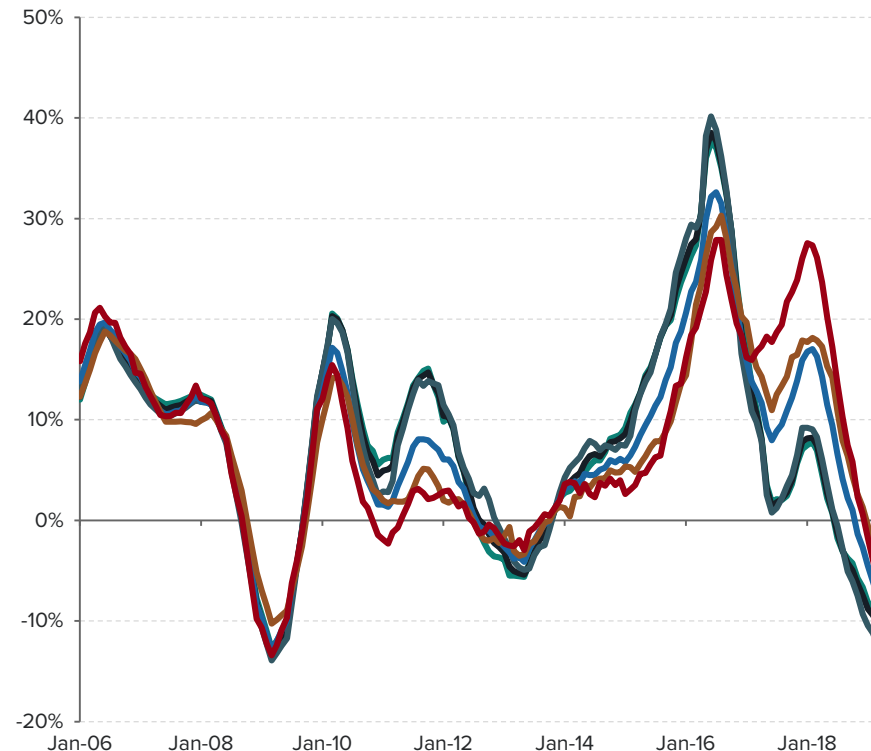
## METRO VANCOUVER AREA, MLS HPI



Source: CREA, MLS HPI

© Hedgeye Risk Management

## %ΔY/Y



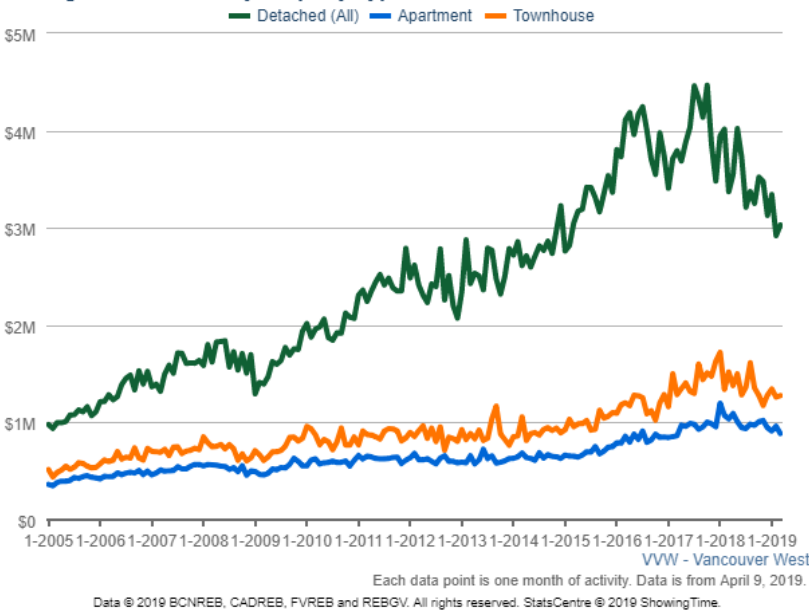
Source: CREA, MLS HPI

© Hedgeye Risk Management

# WEST VANCOUVER GETTING ROUGHED UP

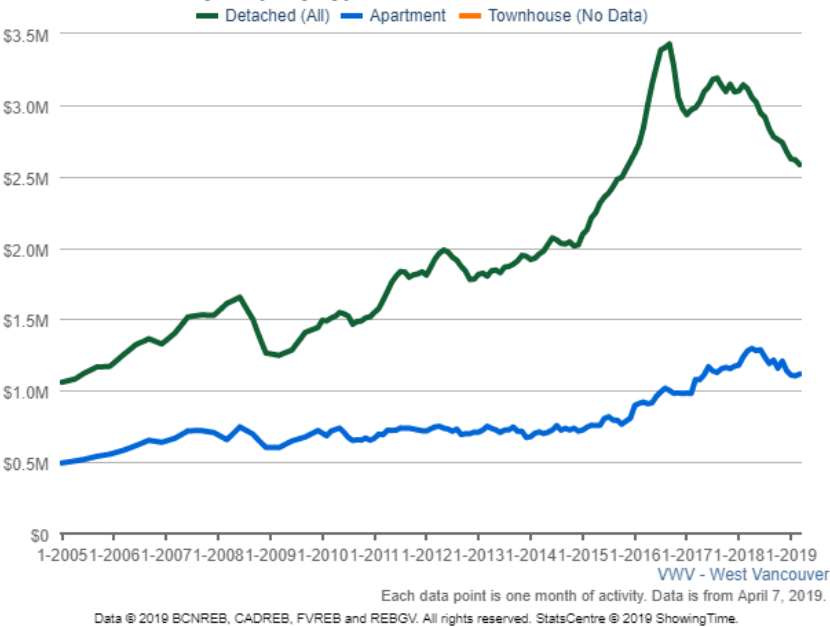
## AVERAGE SALES PRICE OF DETACHED HOME DOWN -32% FROM 2016 PEAK

Average Sales Price - By Property Type



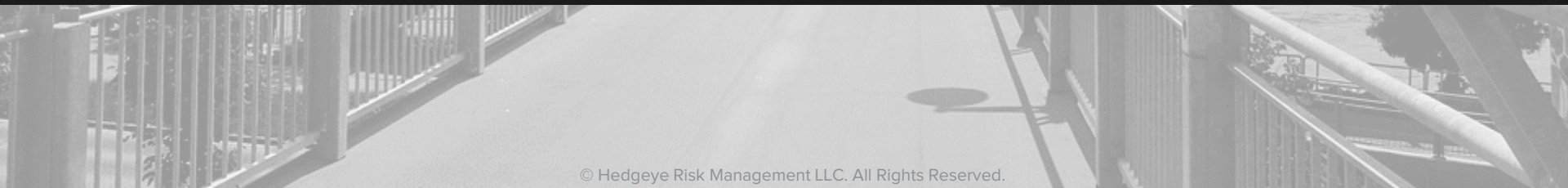
## BENCHMARK SALES PRICE OF DETACHED HOME DOWN -25% FROM 2016 PEAK

MLS® HPI Price - By Property Type



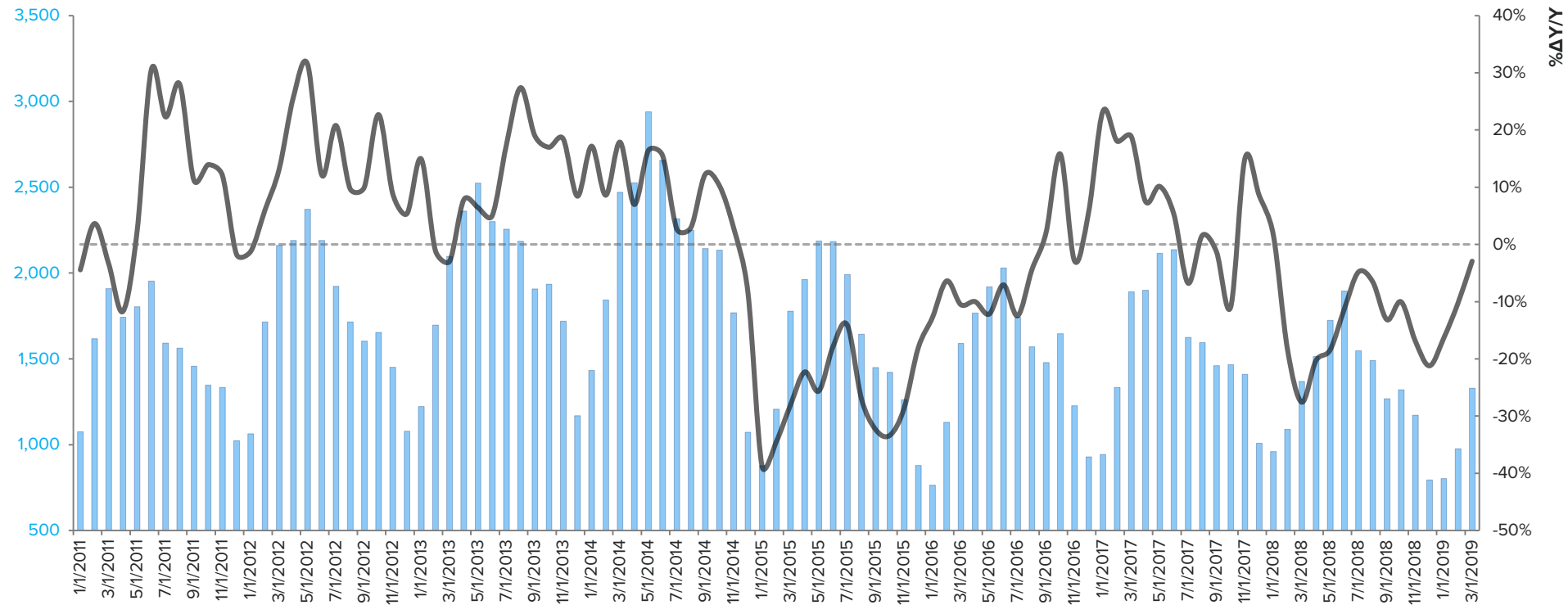


# CALGARY



# EXISTING HOME SALES, BY MONTH

CITY OF CALGARY

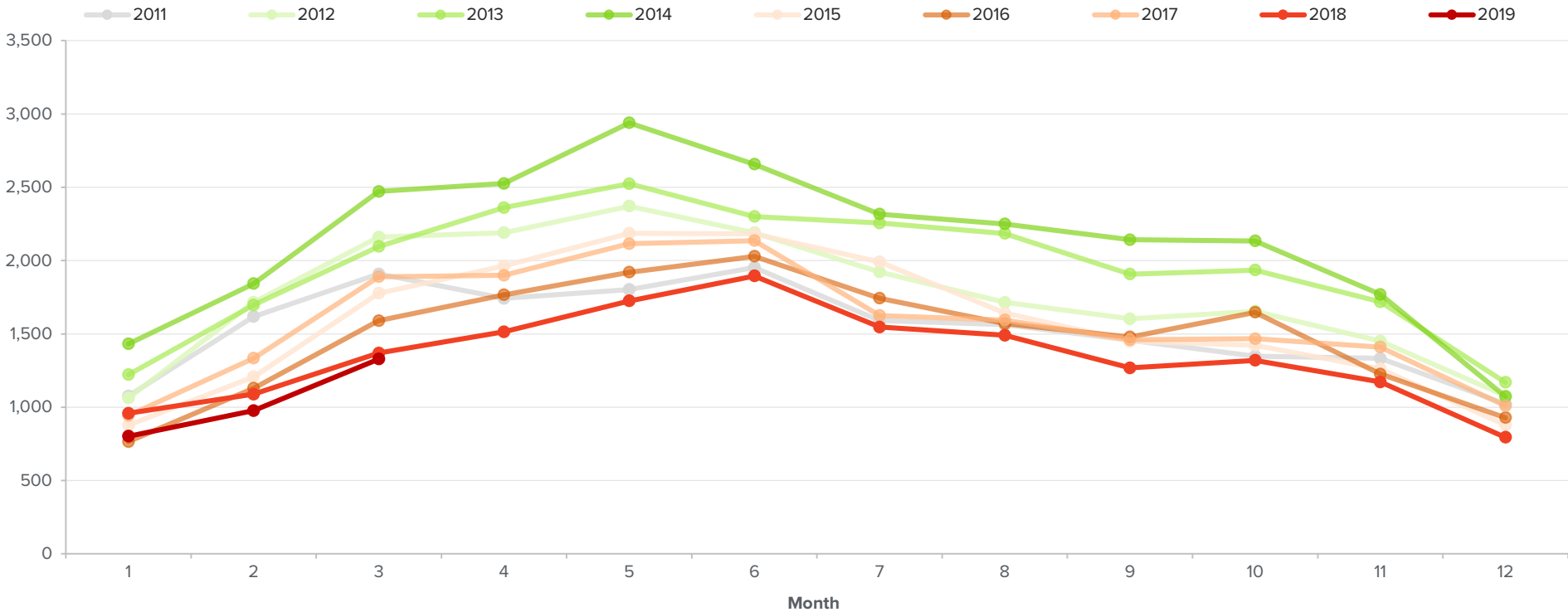


## FALLING SALES

The Calgary market continues to see struggling sales since the beginnings of the oil downturn in 2014/2015.

# EXISTING HOME SALES, STACK

CITY OF CALGARY

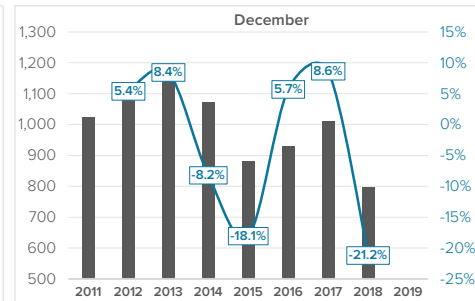
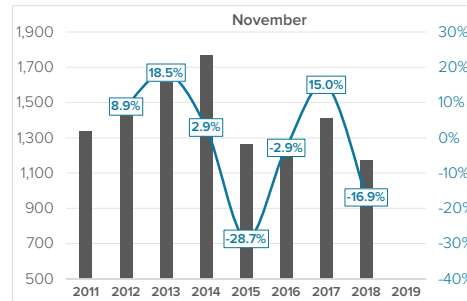
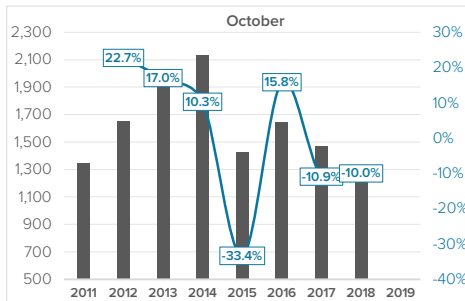
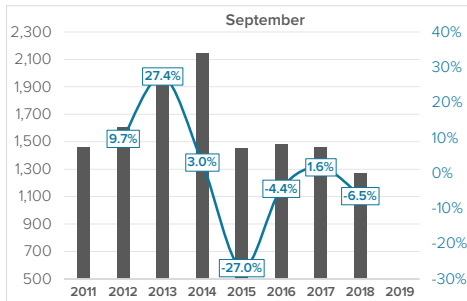
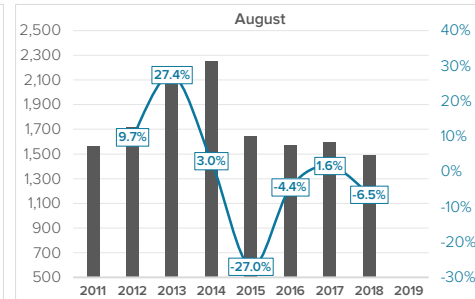
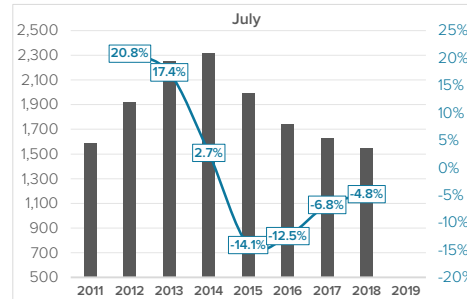
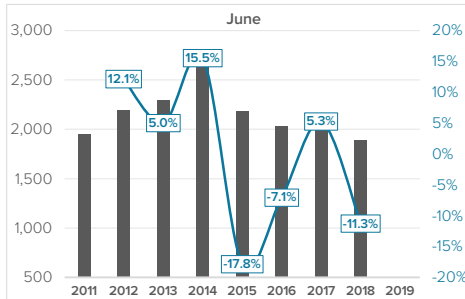
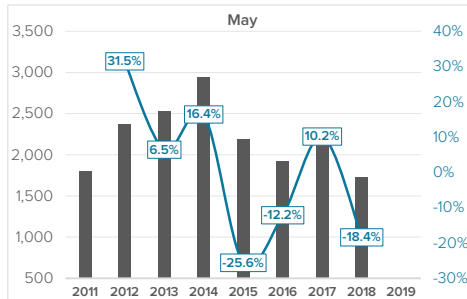
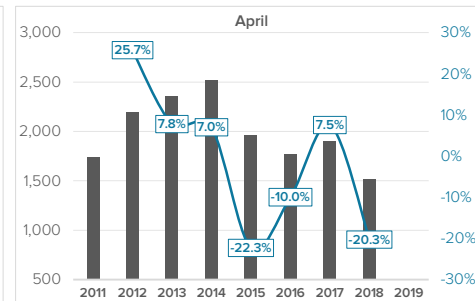
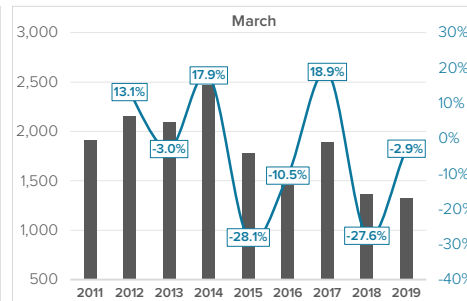
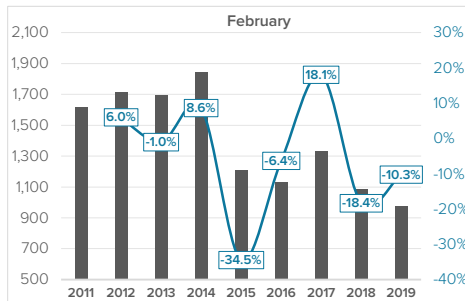
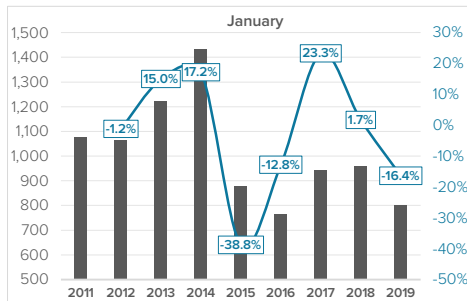


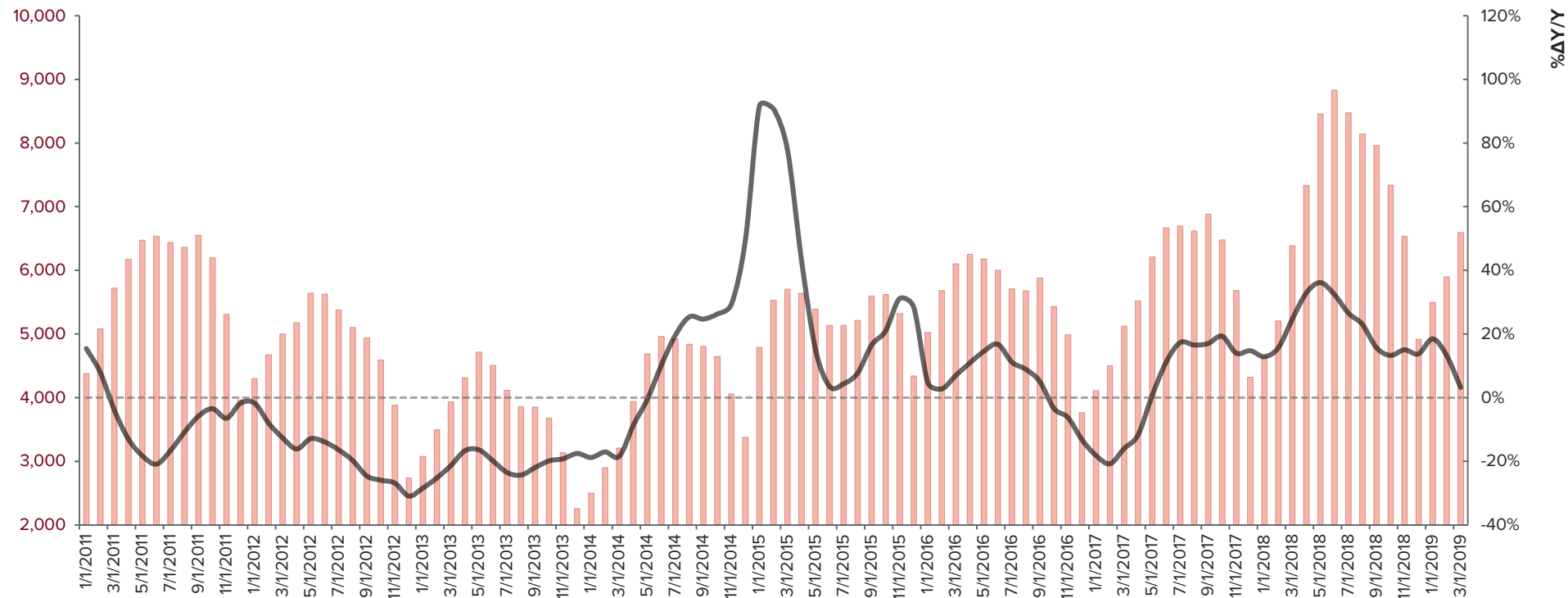
## BOTTOM DWELLING

Sales volumes reside at the lows of the past 9 years.

# EXISTING HOME SALES, BY MONTH

CITY OF CALGARY



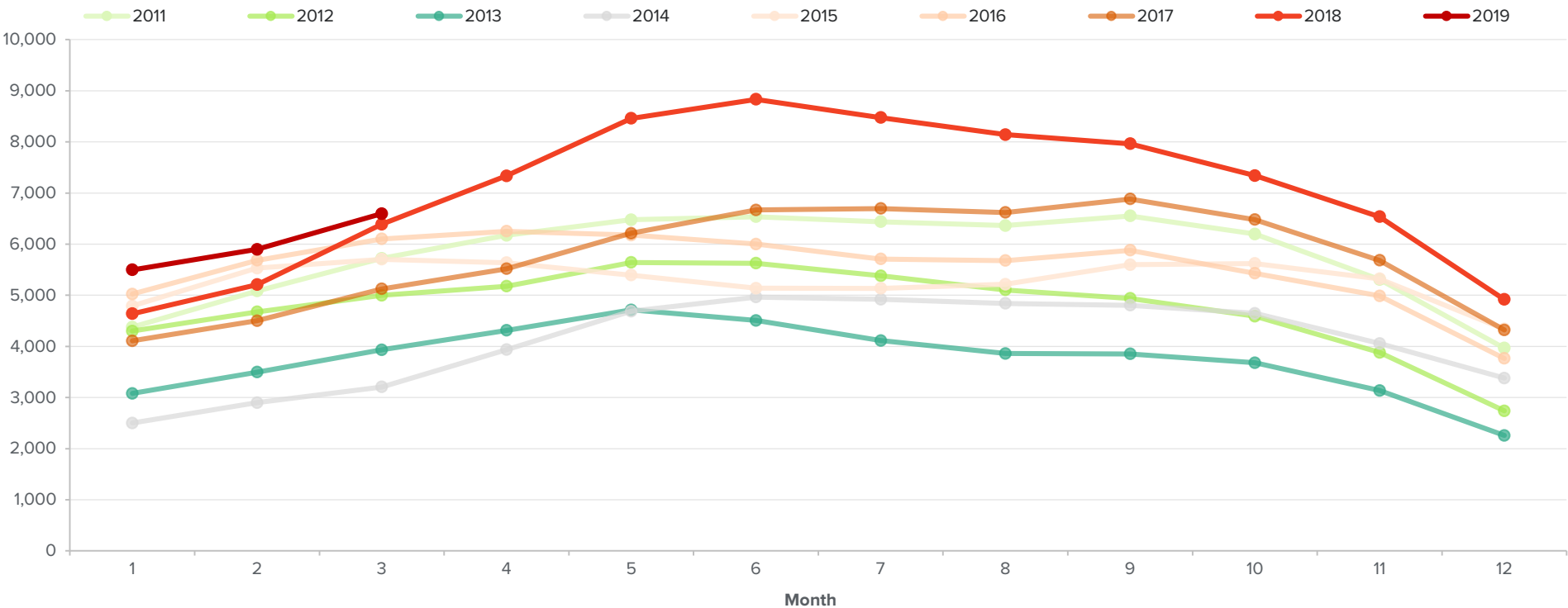


## BIG INVENTORY BUILD IN 2018

2019 *should* be a year of easy comps.

# ACTIVE LISTINGS, STACKED

CITY OF CALGARY



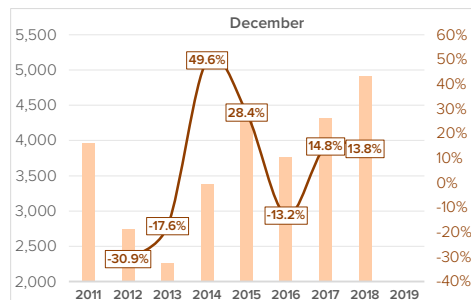
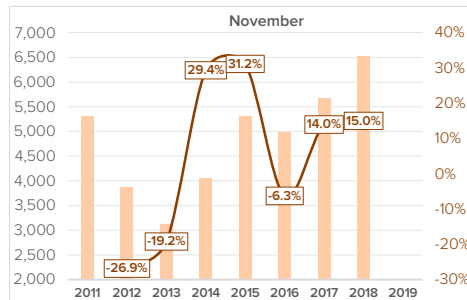
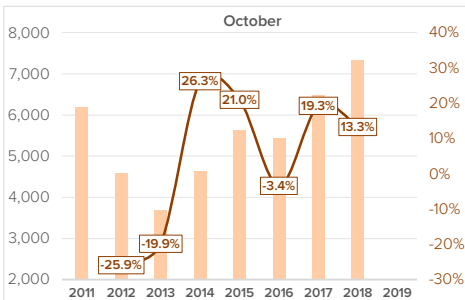
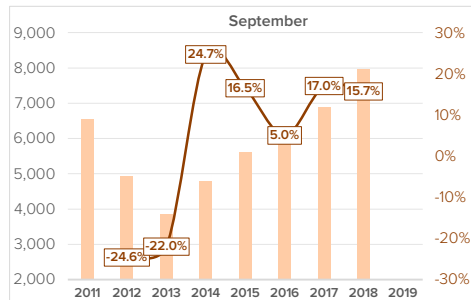
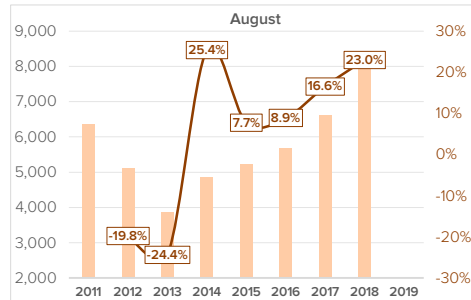
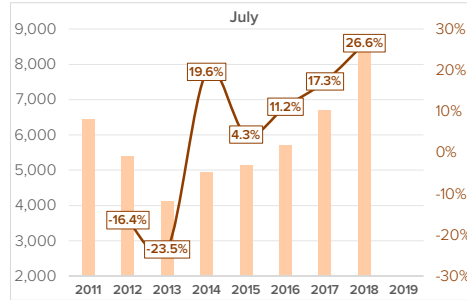
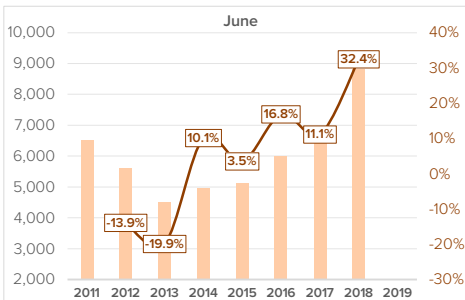
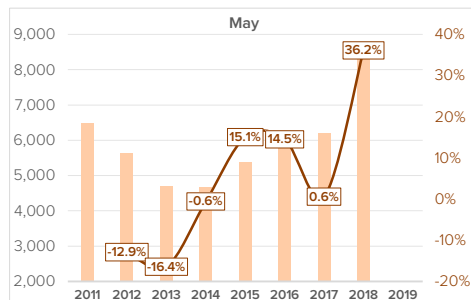
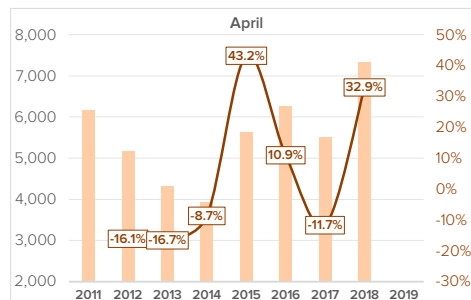
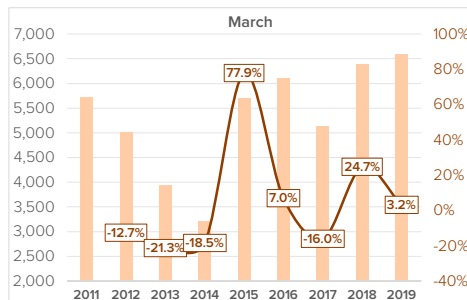
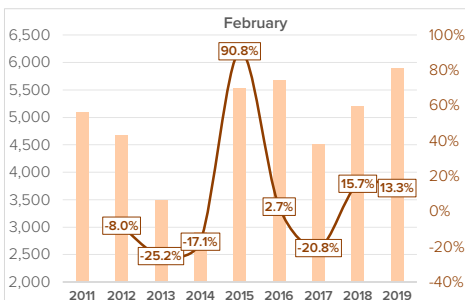
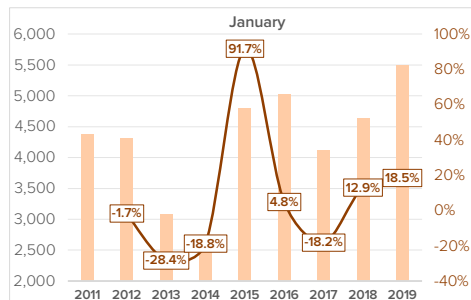
## ALL-TIME HIGHS OF THE LAST 9 YEARS

Inventories are elevated by historical standards.

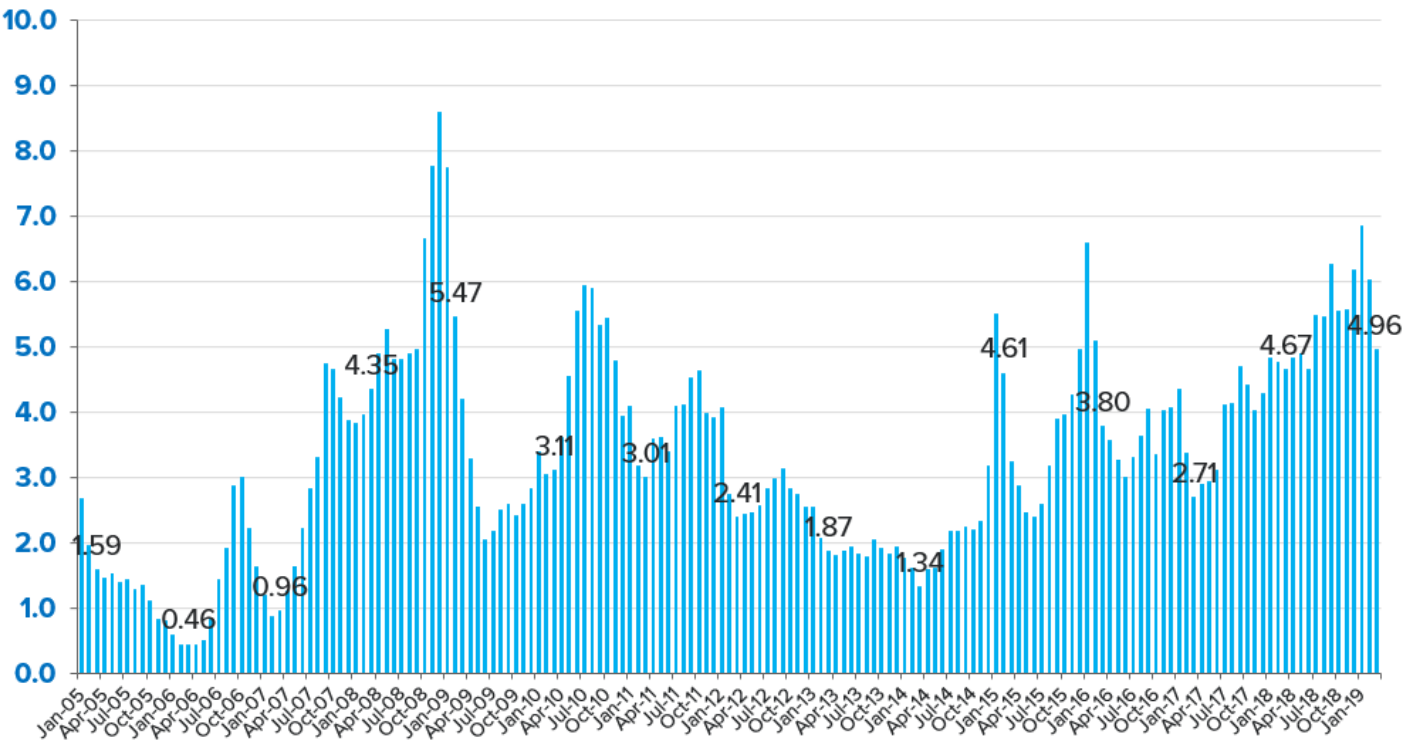


# ACTIVE LISTINGS, BY MONTH

CITY OF CALGARY



CALGARY: MONTHS OF SUPPLY



Apparent ramp-up in supply.

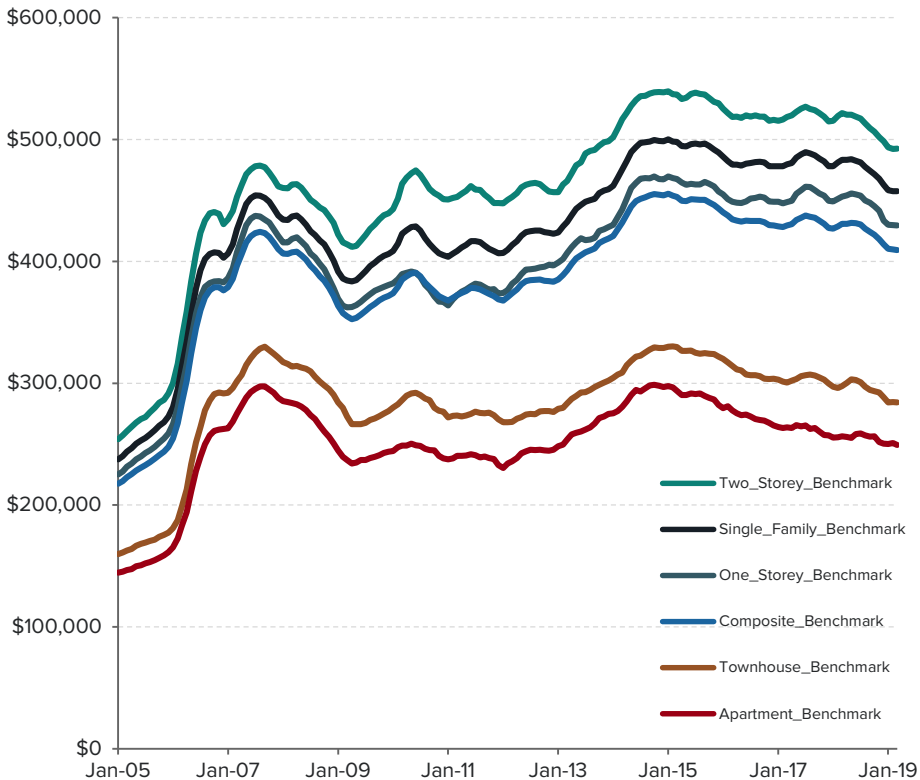
Source: CREB

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\*Note, this chart is not seasonally adjusted.

# PRICING DYNAMICS: **FLAT AS A PANCAKE SINCE 2014**

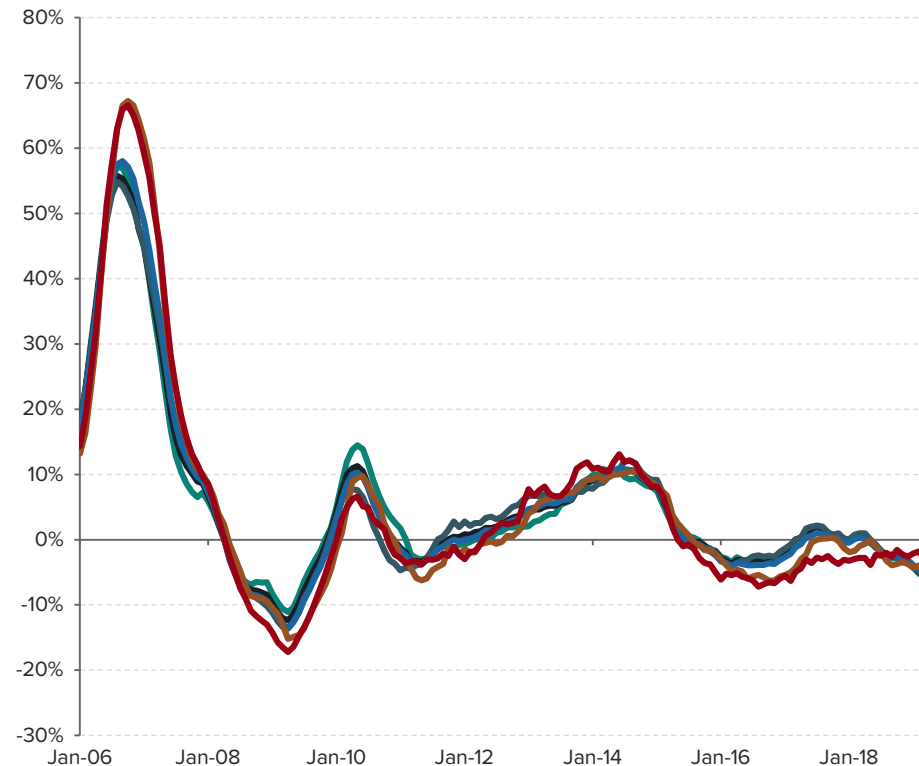
## CITY OF CALGARY, MLS HPI



Source: CREA, MLS HPI

© Hedgeye Risk Management

## % $\Delta Y/Y$



Source: CREA, MLS HPI

© Hedgeye Risk Management

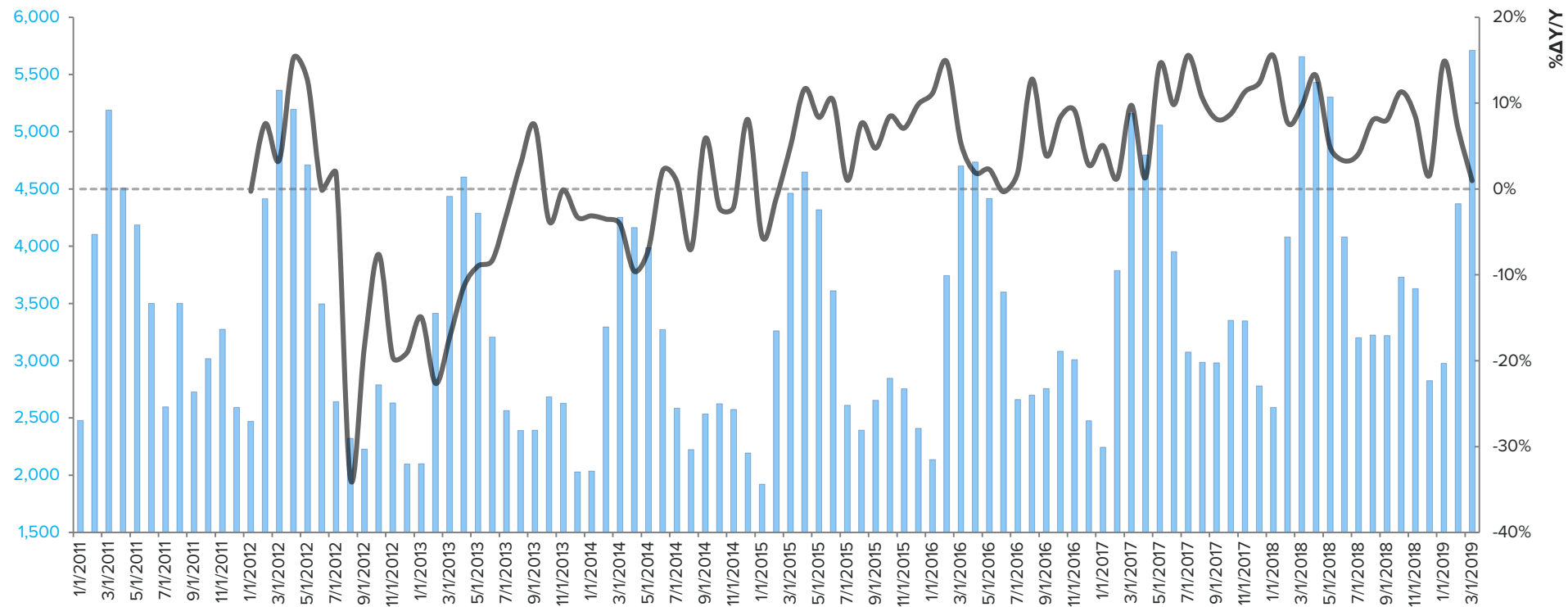


# MONTREAL



# EXISTING HOME SALES, BY MONTH

GREATER MONTREAL AREA

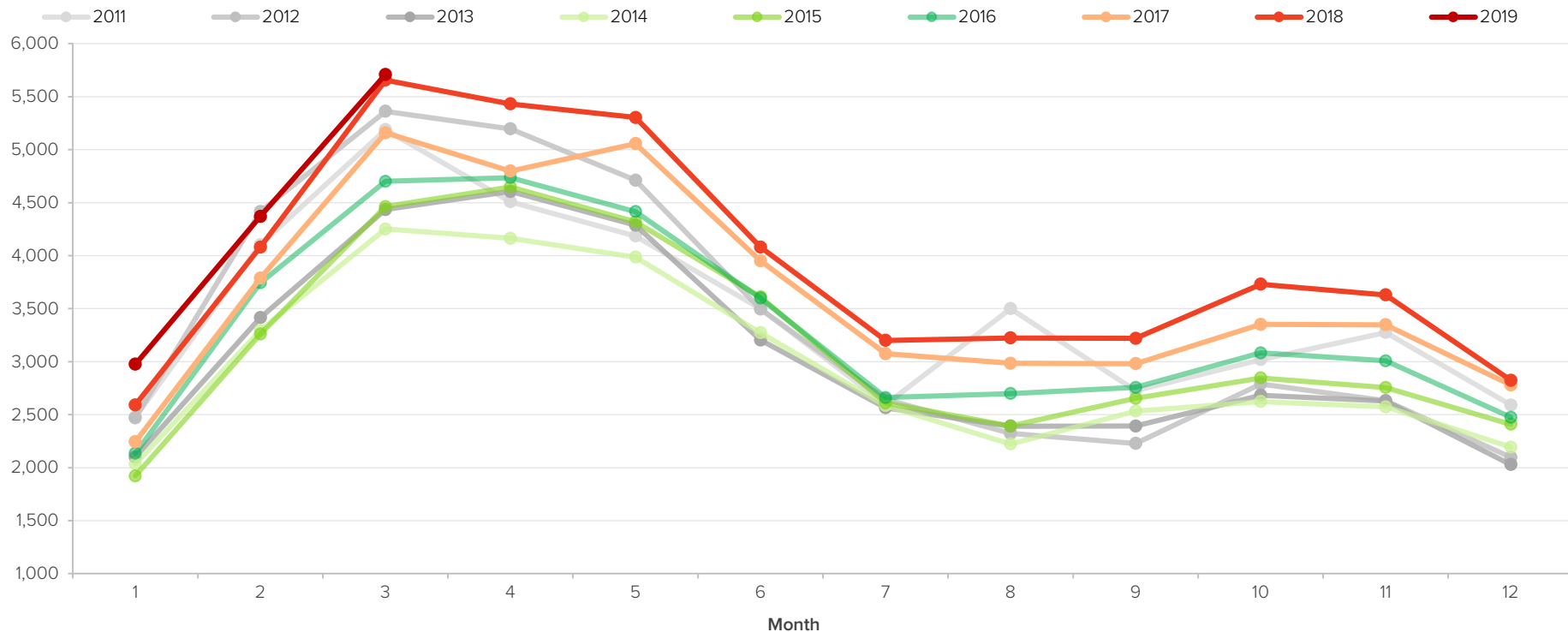


## STABLE SALES GROWTH

Montreal sales volumes have grown more steadily over the last three years.

# EXISTING HOME SALES, STACK

GREATER MONTREAL AREA

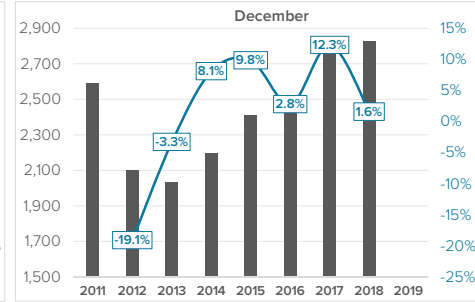
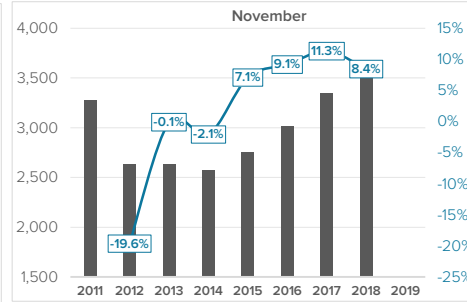
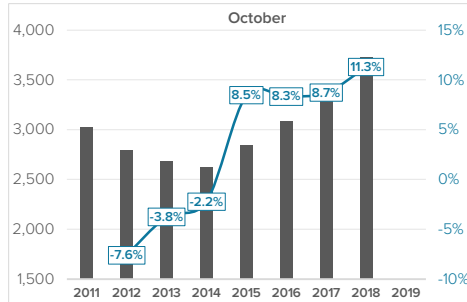
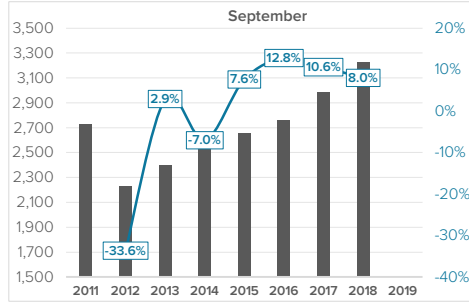
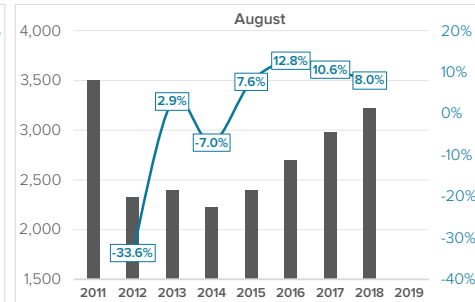
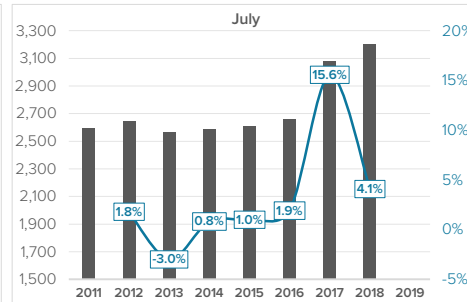
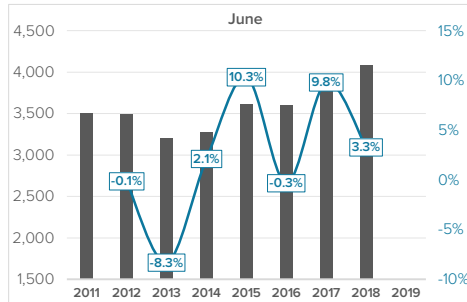
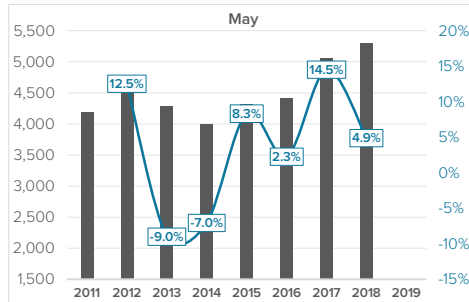
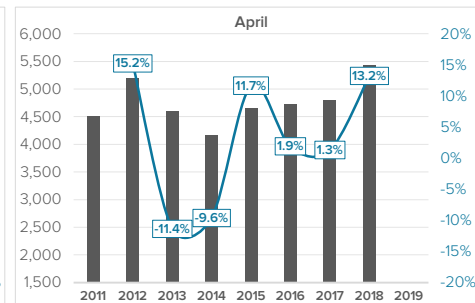
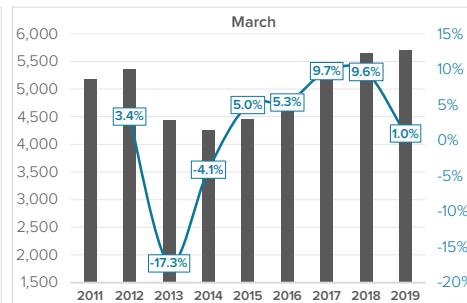
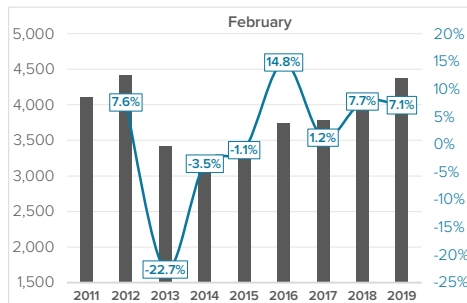
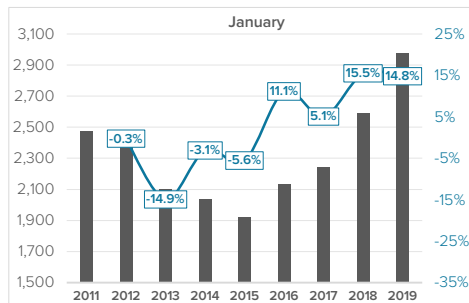


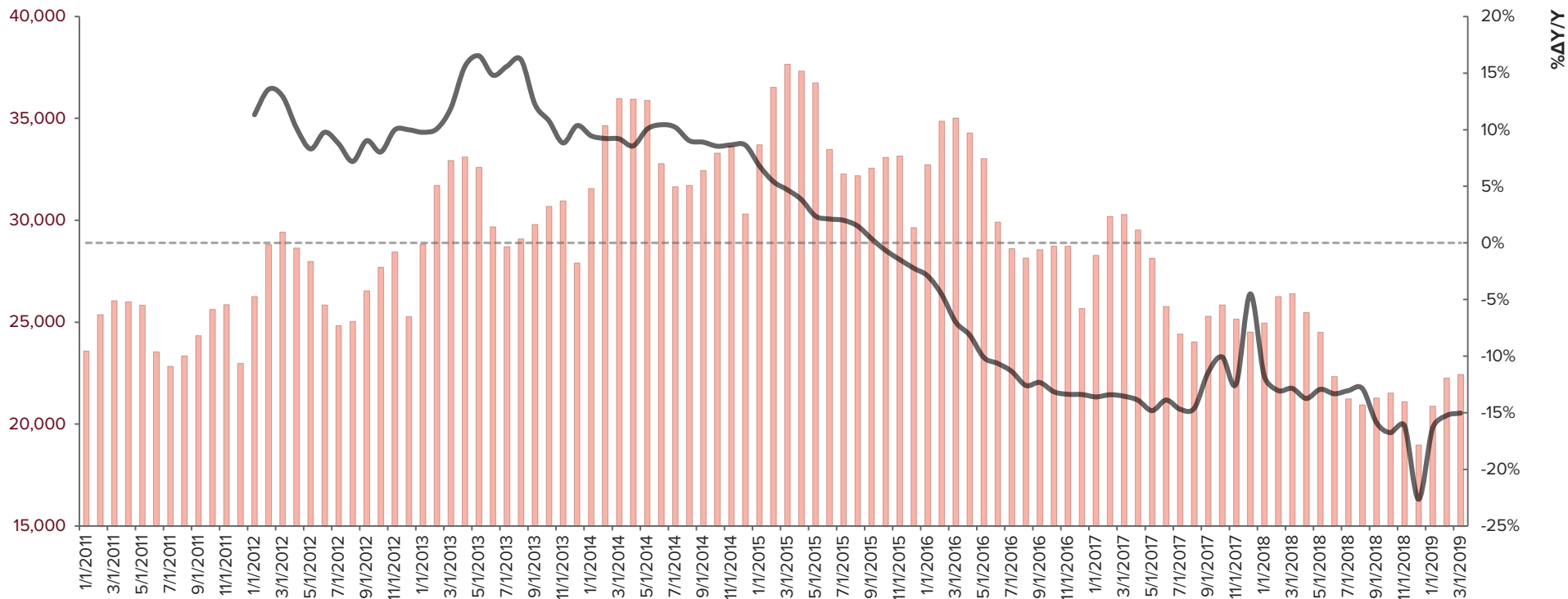
## NINE-YEAR HIGHS

2019 sales volumes sit atop the set of 9-year historicals.

# EXISTING HOME SALES, BY MONTH

## GREATER MONTREAL AREA





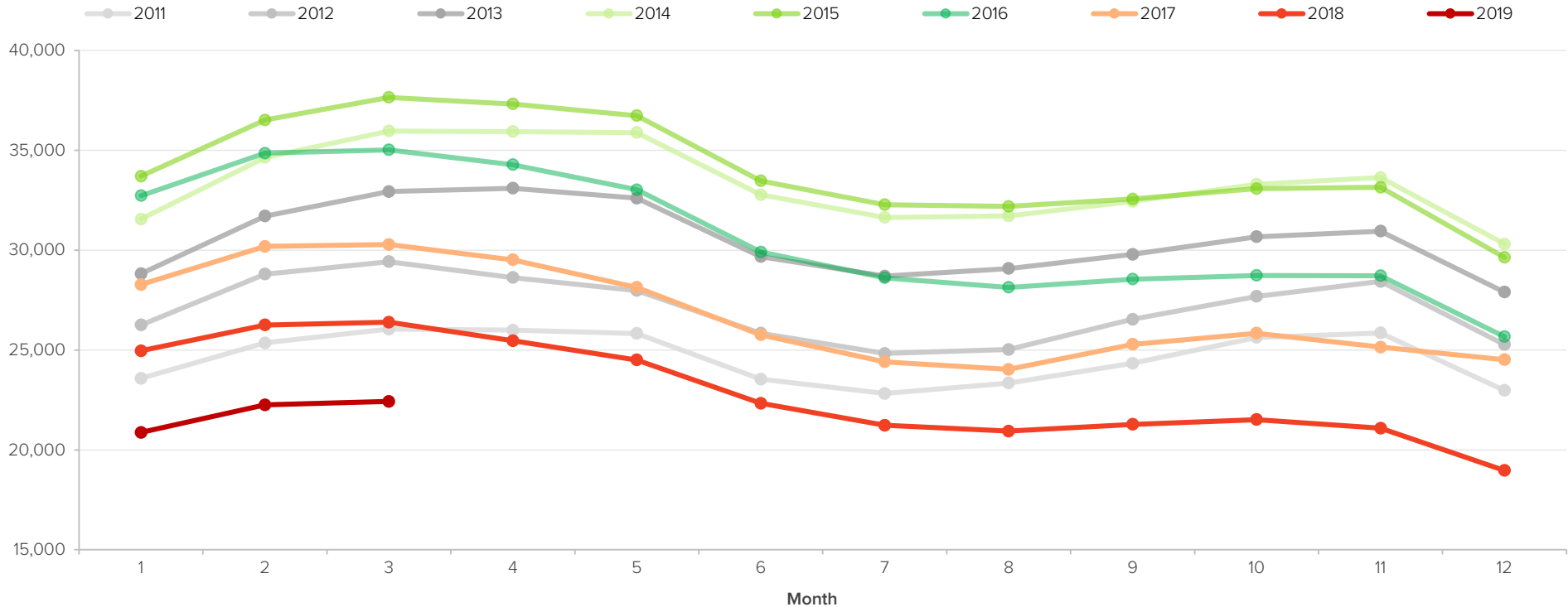
## INVENTORIES ARE CLEARING

Active listings in Montreal have declined steadily over the last three years.



# ACTIVE LISTINGS, STACKED

GREATER MONTREAL AREA

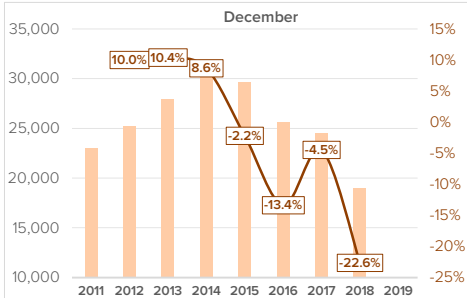
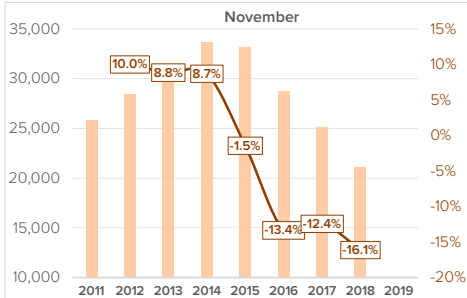
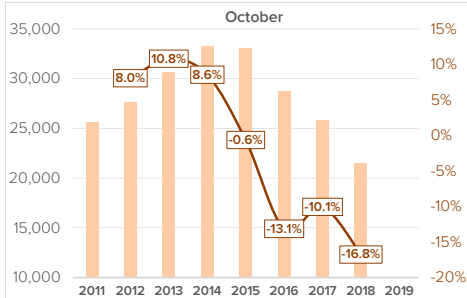
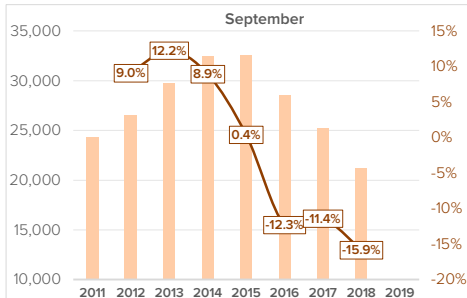
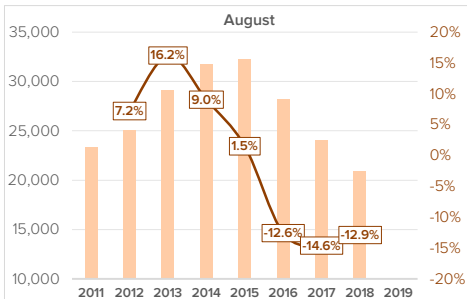
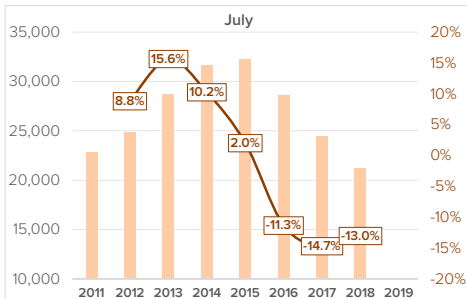
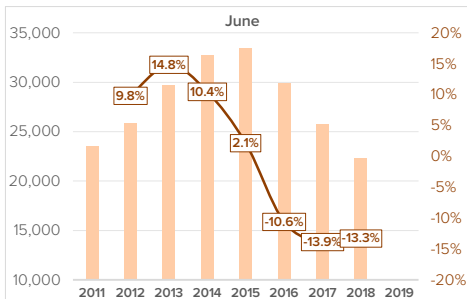
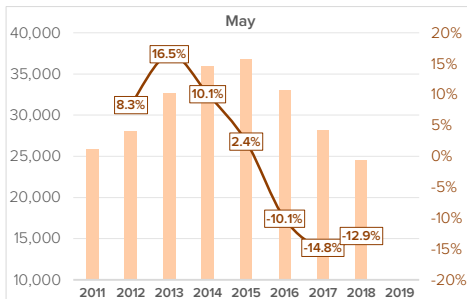
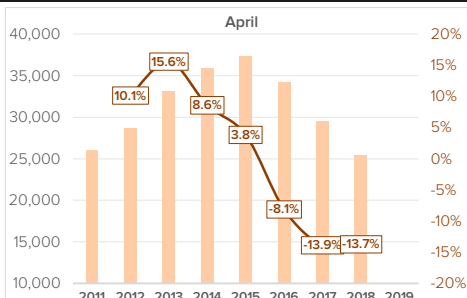
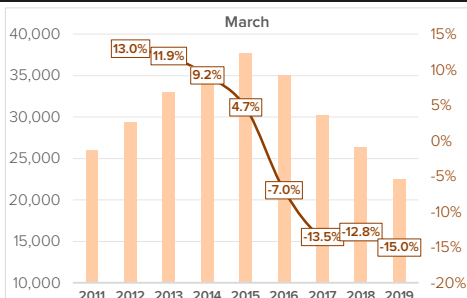
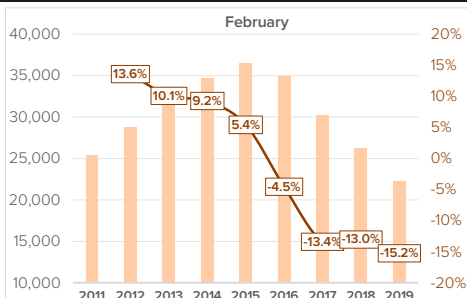
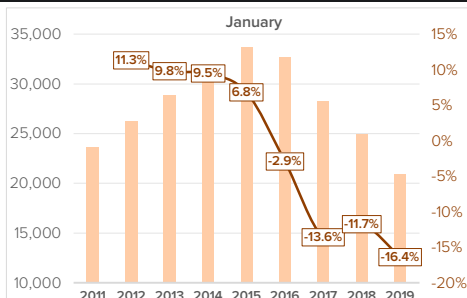


## SMALLEST LISTINGS IN 9 YEARS

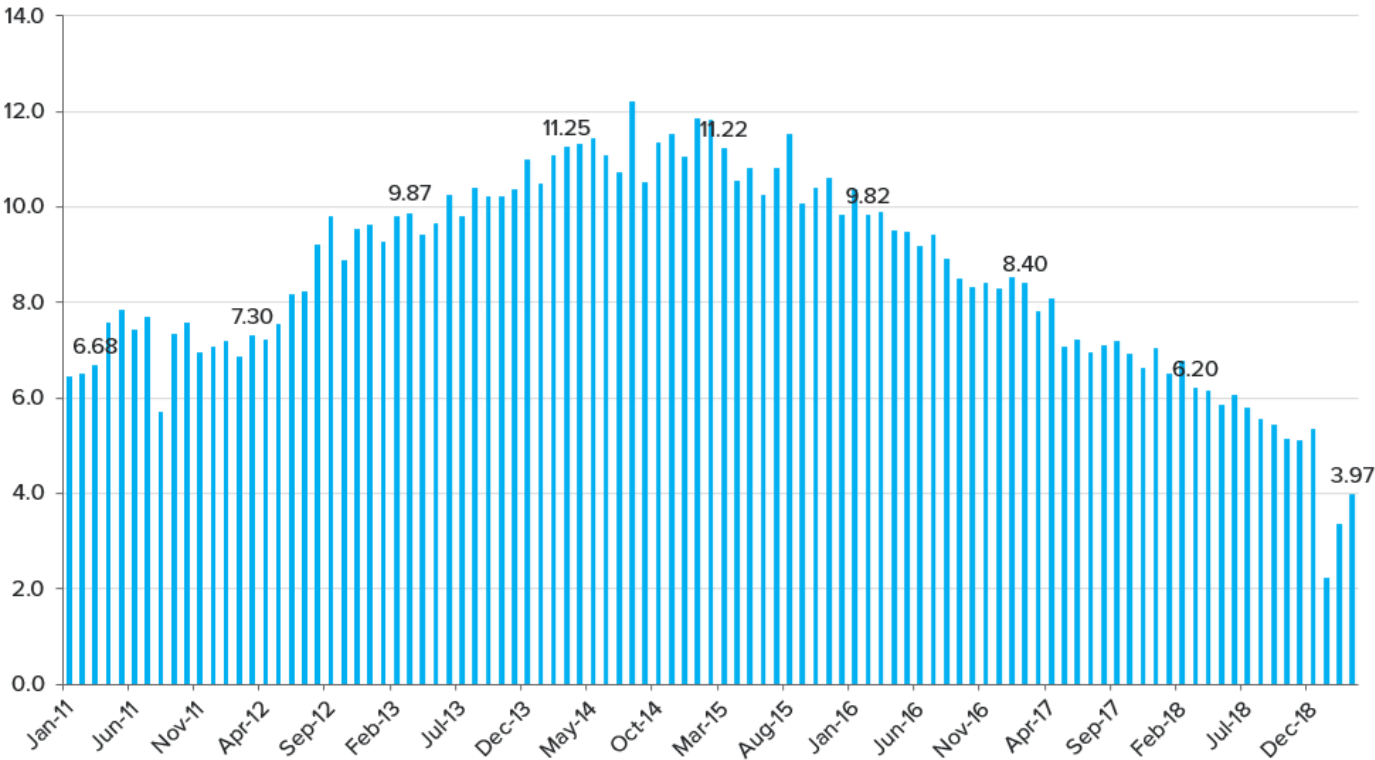
Montreal inventories currently reside below every level of the last 9 years,

# ACTIVE LISTINGS, BY MONTH

## GREATER MONTREAL AREA



MONTREAL METRO AREA: MONTHS OF SUPPLY (ADJUSTED FOR SEASONALITY)



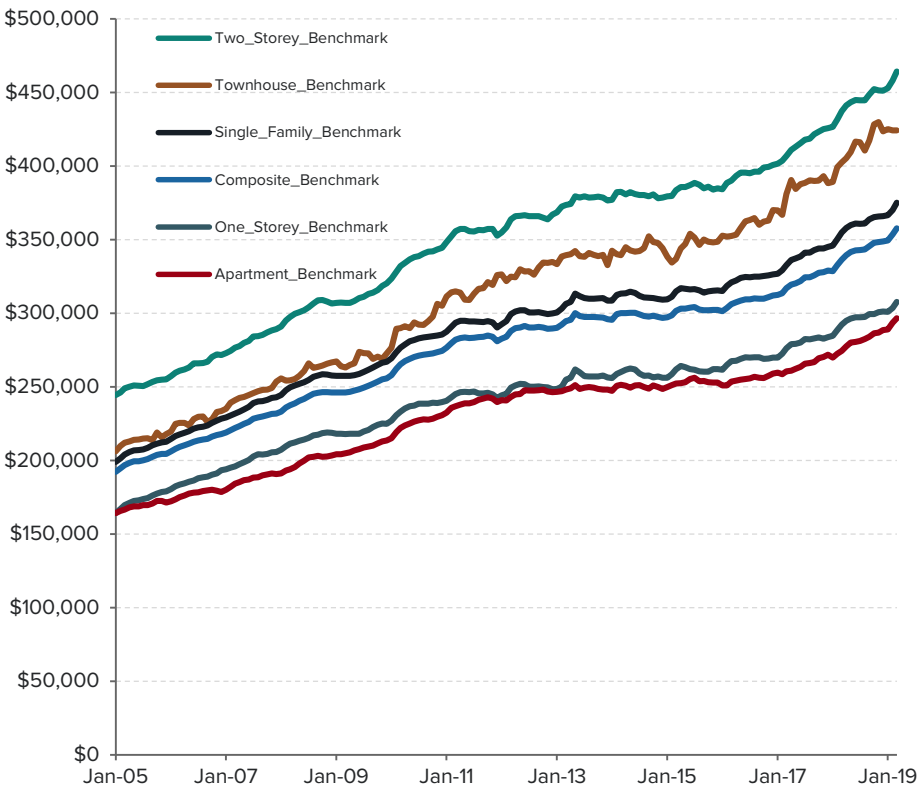
Steady decline in supply.

Source: Toronto Real Estate Board

© Hedgeye Risk Management

# PRICING DYNAMICS: SURGING

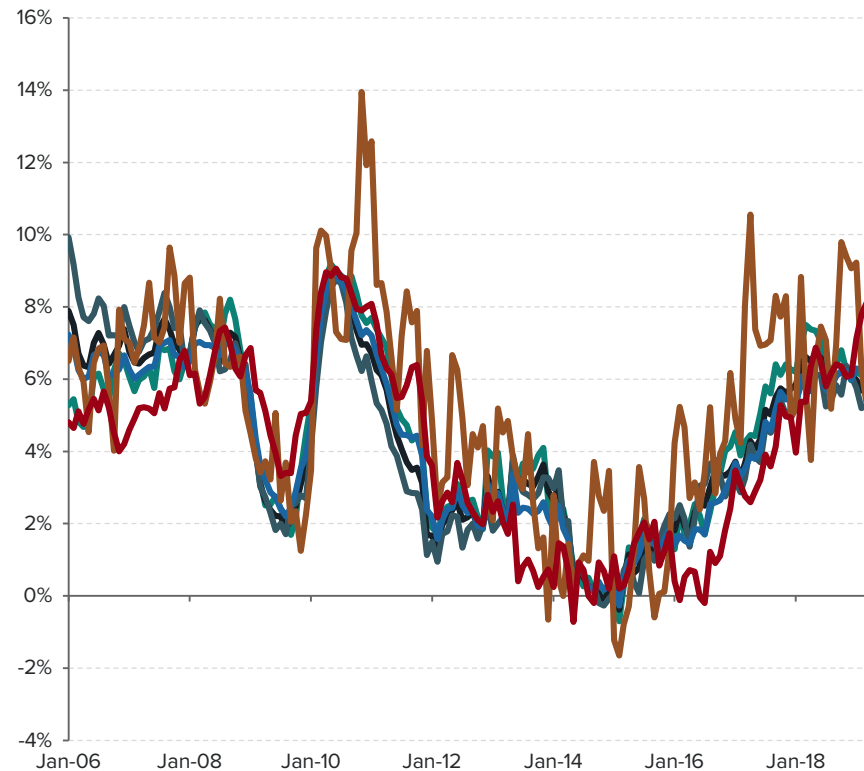
## GREATER MONTREAL AREA, MLS HPI



Source: CREA, MLS HPI

© Hedgeye Risk Management

## %ΔY/Y



Source: CREA, MLS HPI

© Hedgeye Risk Management



## **EMERGING THEMES**

# THE RUNDOWN

1

## **TWO-CYLINDER ENGINE STALLING**

The dampened outlook for an economy losing the thrust of its two historically dominant engines, housing and commodities, in addition to a diminished competitive position from an improved and increasingly friendly U.S. business climate.

2

## **HELOC? MORE LIKE HEadLOCK!**

Deteriorating household finances under the growing weight of burdensome debt loads, reflected in slowing consumer credit growth and rising insolvencies.

3

## **THE RELEVANCE OF THE CHINA SHORT**

The relevance of the broader China short case as it pertains to, among other things, the strong potential for intensified capital controls and a further weakening of foreign real estate demand given China's precarious dollar position in the face of an emerging twin-deficit problem.

4

## **RISING TENSIONS IN CANADA-CHINA RELATIONS**

USMCA, the epic arrest of the Huawei Princess, and Chinese bans on Canadian Canola exports – with more to come.

5

## **PUBLIC ALARM OVER MONEY LAUNDERING**

Growing alarm and public scrutiny over relaxed money laundering laws, and the enabled flow of dirty money into real estate, giving rise to an emboldened regulatory response

# 1. TWO-CYLINDER ENGINE STALLING

CANADA: NET FOREIGN DIRECT INVESTMENT FLOWS (LTM)

\$C Billions

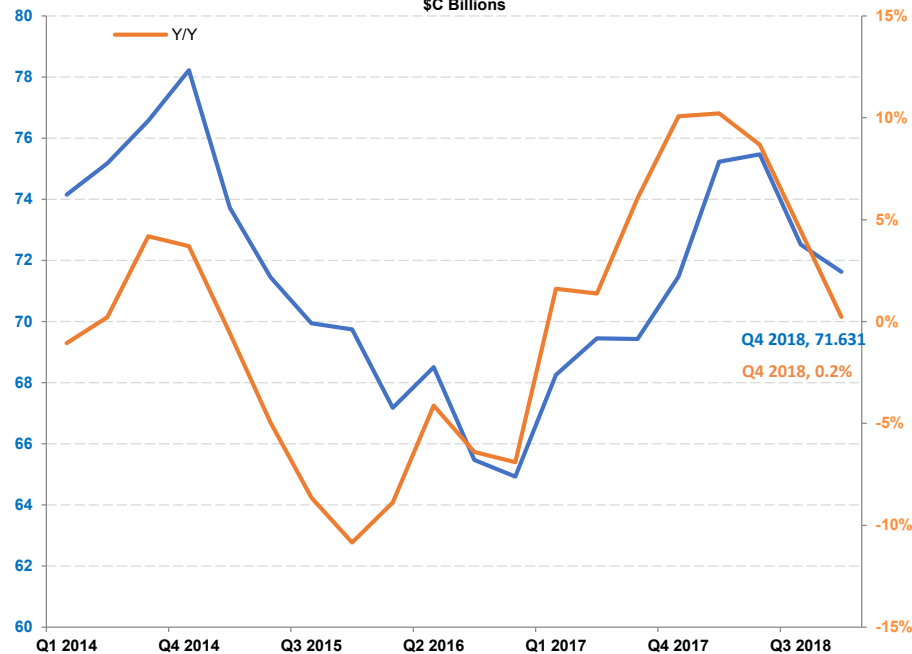


Source: Statistics Canada

© Hedgeye Risk Management

CANADA: BUSINESS INVESTMENT SPENDING (2012 CHAINED DOLLARS)

\$C Billions



Source: Statistics Canada

© Hedgeye Risk Management

## NOT WELL POSITIONED TO PICK UP THE SLACK FROM SLOWING HOUSING AND A DEPRESSED DOMESTIC ENERGY ECONOMY

Negative Net FDI and uninspired (relative to easy comps in 15', 16', and 17') business investment spending set to face continued drag from the improving business conditions south of the border. With housing slowing, and no commodities super cycle in sight, the two-cylinder economic engine of old is breaking down.

# THE RUNDOWN

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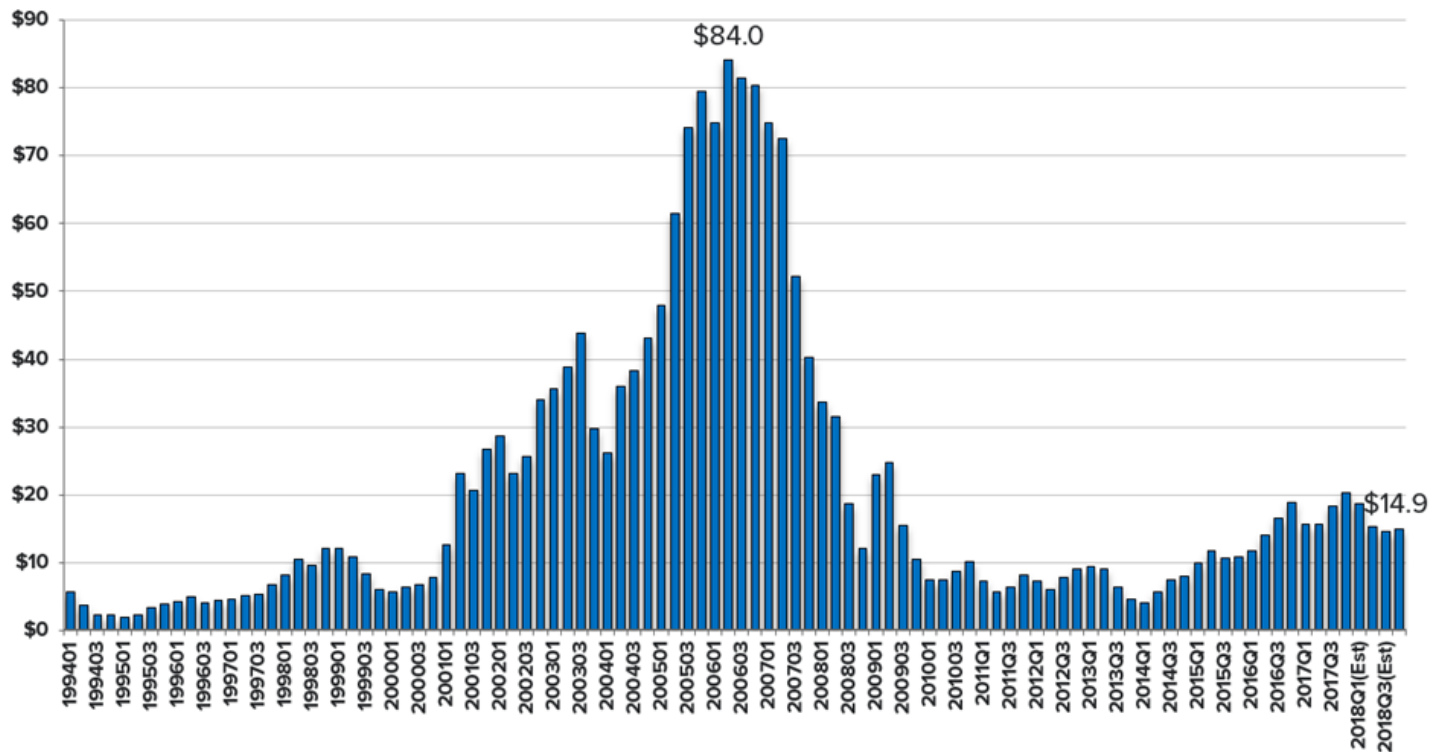
Growing alarm and public scrutiny over relaxed money laundering laws, and the enabled flow of dirty money into real estate, giving rise to an emboldened regulatory response



## 2. DETERIORATING HOUSEHOLD FINANCES

### IRRATIONAL EXUBERANCE

Total Home Equity Cashed Out (\$ billions) - Quarterly (1994-3Q18)

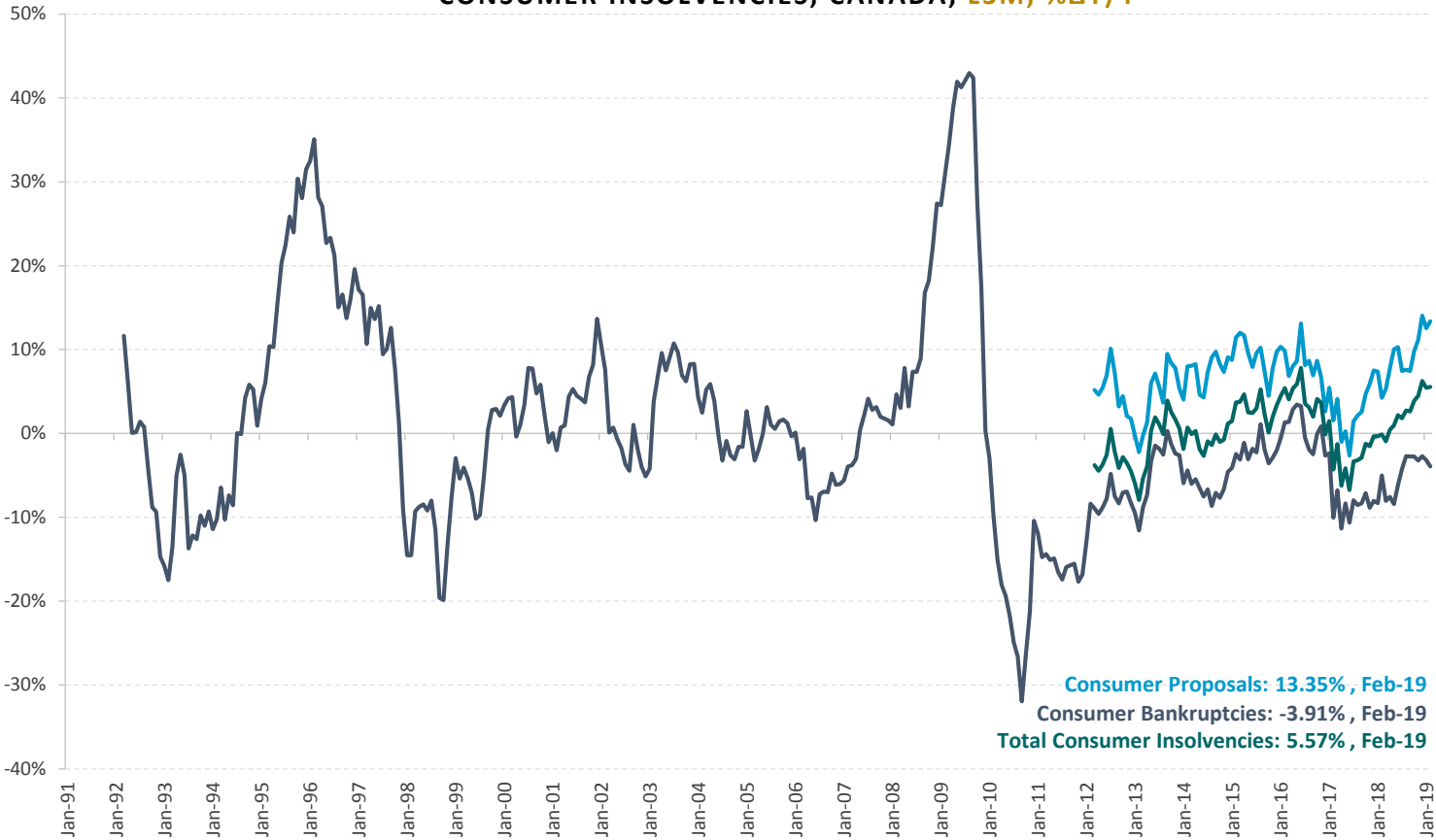


Cash-out refi home equity withdrawal amounts reached obscene levels in the 2005-2007 period, averaging \$70-80 billion per quarter. Currently, levels are in the \$10-20 billion range per quarter, and that's not adjusted for inflation, which means today's equity extraction is still running below 1/5th of what occurred during the bubble.

On a per capita basis, HELOC balances in Canada were \$4,849 in October, more than quadruple the \$1,080 in the U.S., according to Bloomberg calculations based on DBRS and Federal Reserve data.

## 2. DETERIORATING HOUSEHOLD FINANCES CONT.

CONSUMER INSOLVENCIES, CANADA, L3M, %ΔY/Y



Increasing consumer proposals are causing total consumer insolvencies to rise as borrowers seek alternatives to personal bankruptcy.

Recall, a consumer proposal is a formal, legally binding process to negotiate an offer to pay creditors a percentage of what is owed to them, or extend the time until the debts must be paid off.

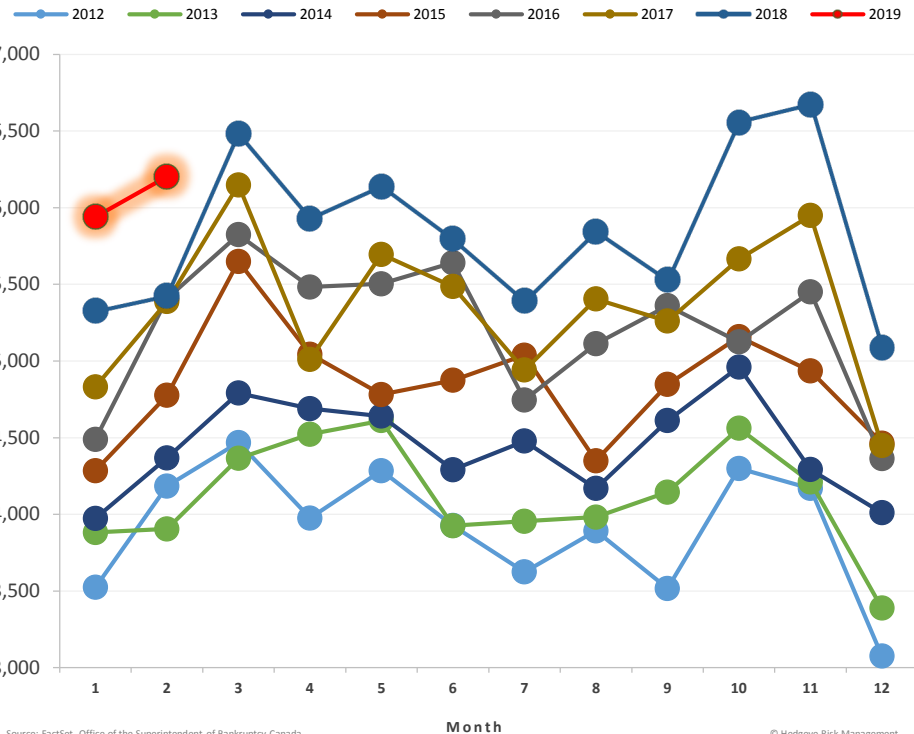
Source: FactSet, Office of the Superintendent of Bankruptcy Canada

© Hedgeye Risk Management

## 2. DETERIORATING HOUSEHOLD FINANCES CONT.

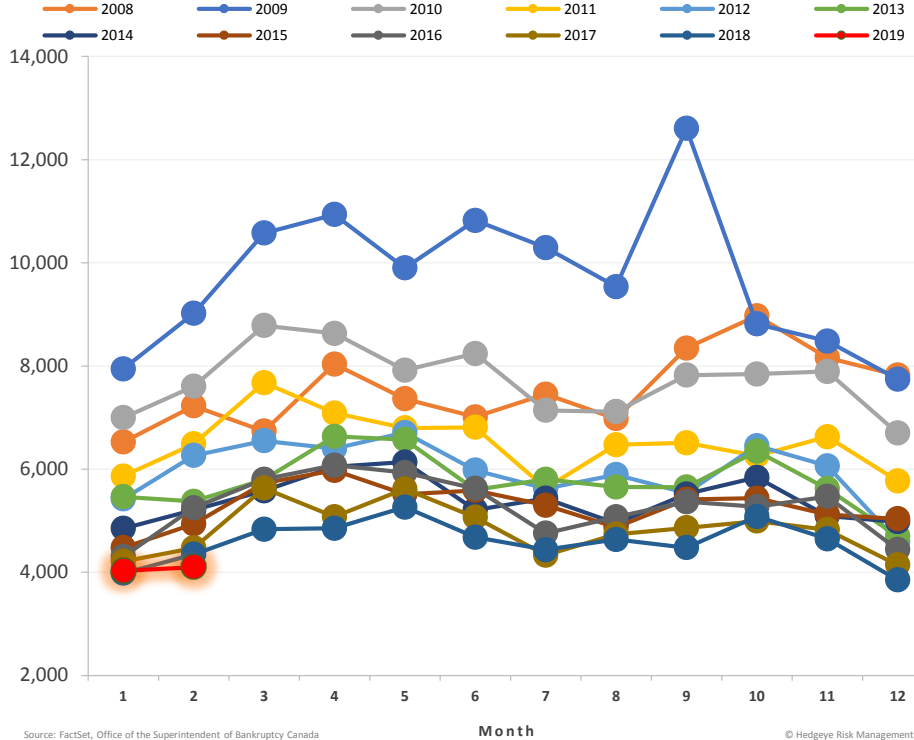
### PROPOSALS HITTING ALL-TIME RECORDED HIGHS:

#### CONSUMER PROPOSALS, CANADA



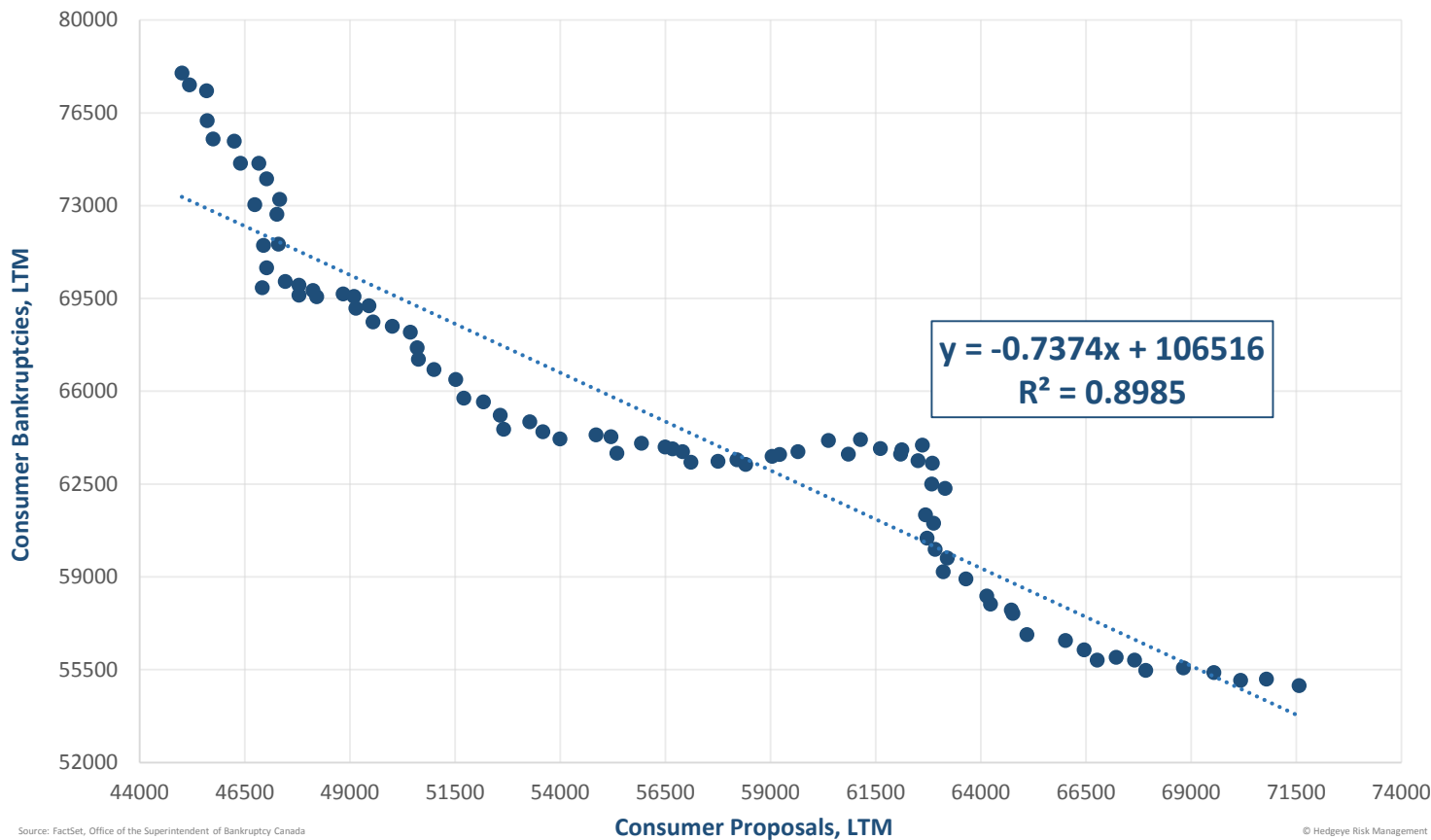
### BANKRUPTCY DATA NOT FOLLOWING SUIT:

#### CONSUMER BANKRUPTCIES, CANADA



## 2. DETERIORATING HOUSEHOLD FINANCES CONT.

### INVERSE RELATIONSHIP:



Demonstrated clearly here, a consumer proposal is a popular alternative to personal bankruptcy.

# THE RUNDOWN

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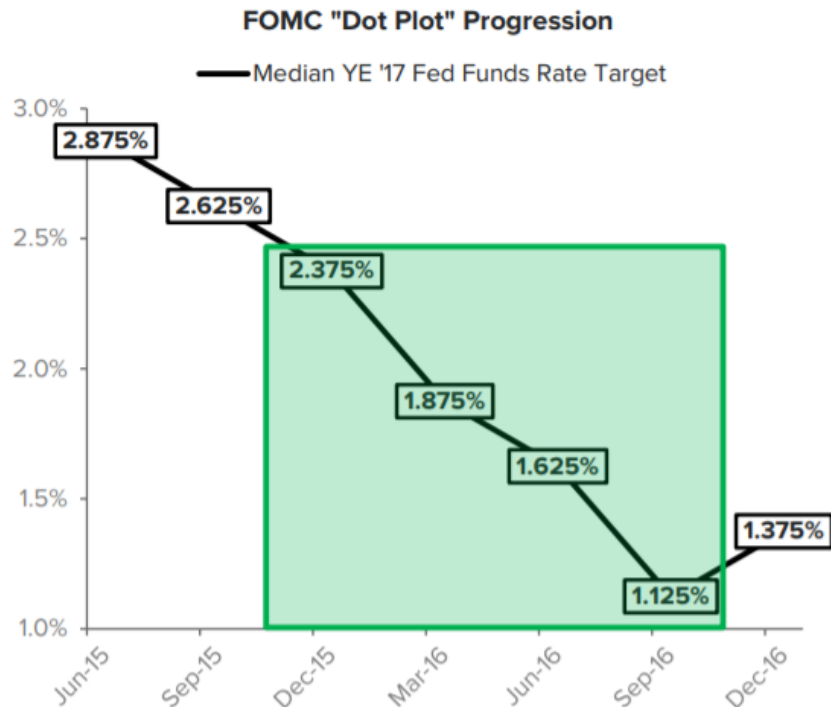
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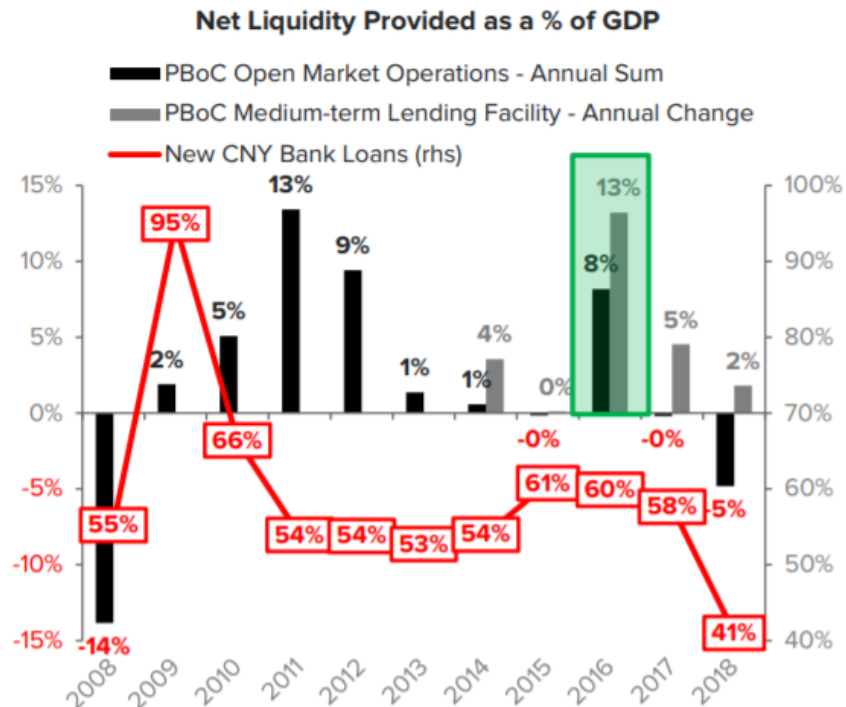
### 3. THE RELEVANCE OF THE CHINA SHORT

#### REMEMBER THE “SHANGHAI ACCORD”?

THE FED RHETORICALLY EASED SIGNIFICANTLY DURING THE 2015-16 GLOBAL INDUSTRIAL RECESSION...



...WHICH ALLOWED THE PBOC TO UNLEASH AN UNPRECEDENTED WAVE OF LIQUIDITY



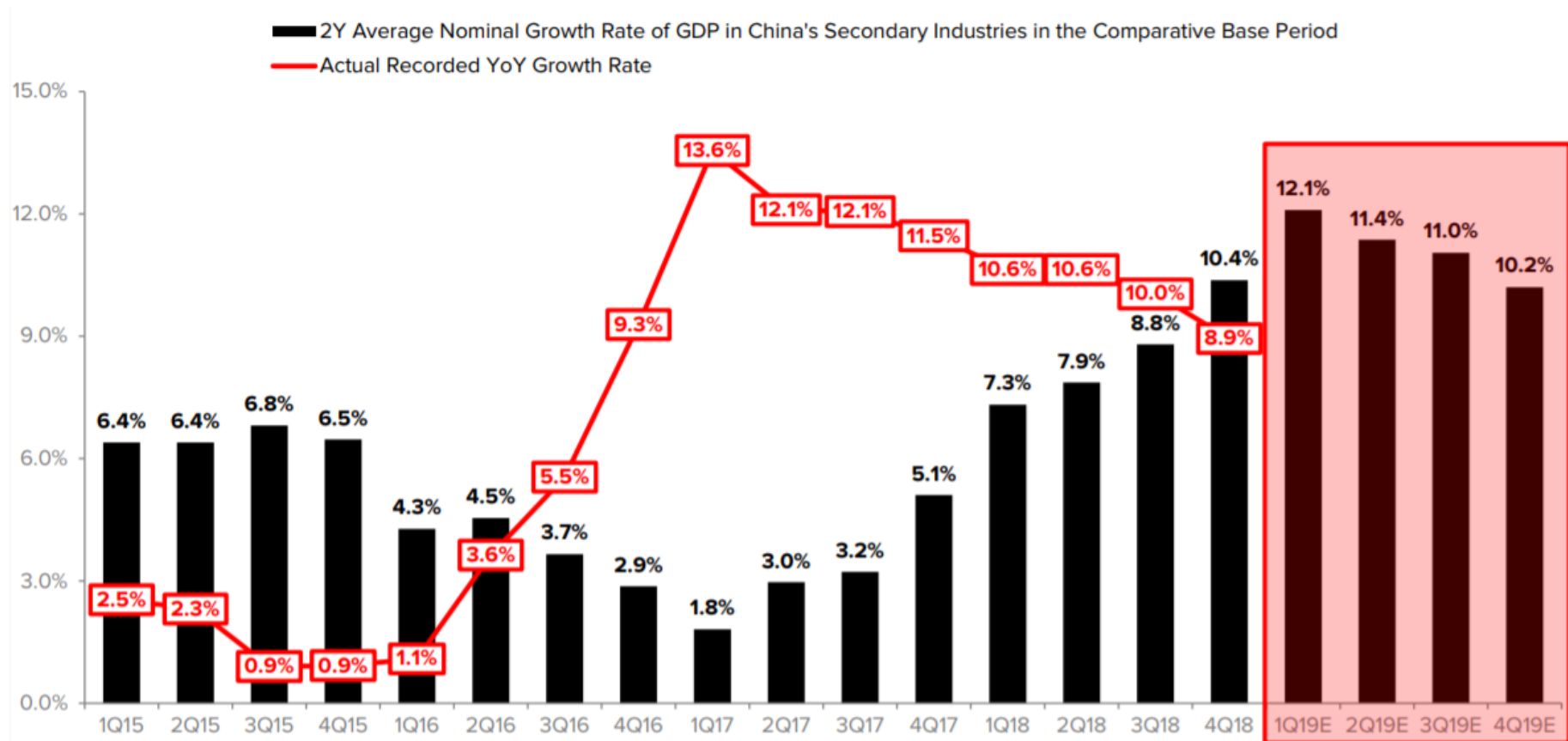
### 3. THE RELEVANCE OF THE CHINA SHORT CONT.

... YOU SHOULD; IT WAS EVEN BIGGER THAN CHINA'S 2008-2009 STIMULUS



### 3. THE RELEVANCE OF THE CHINA SHORT CONT.

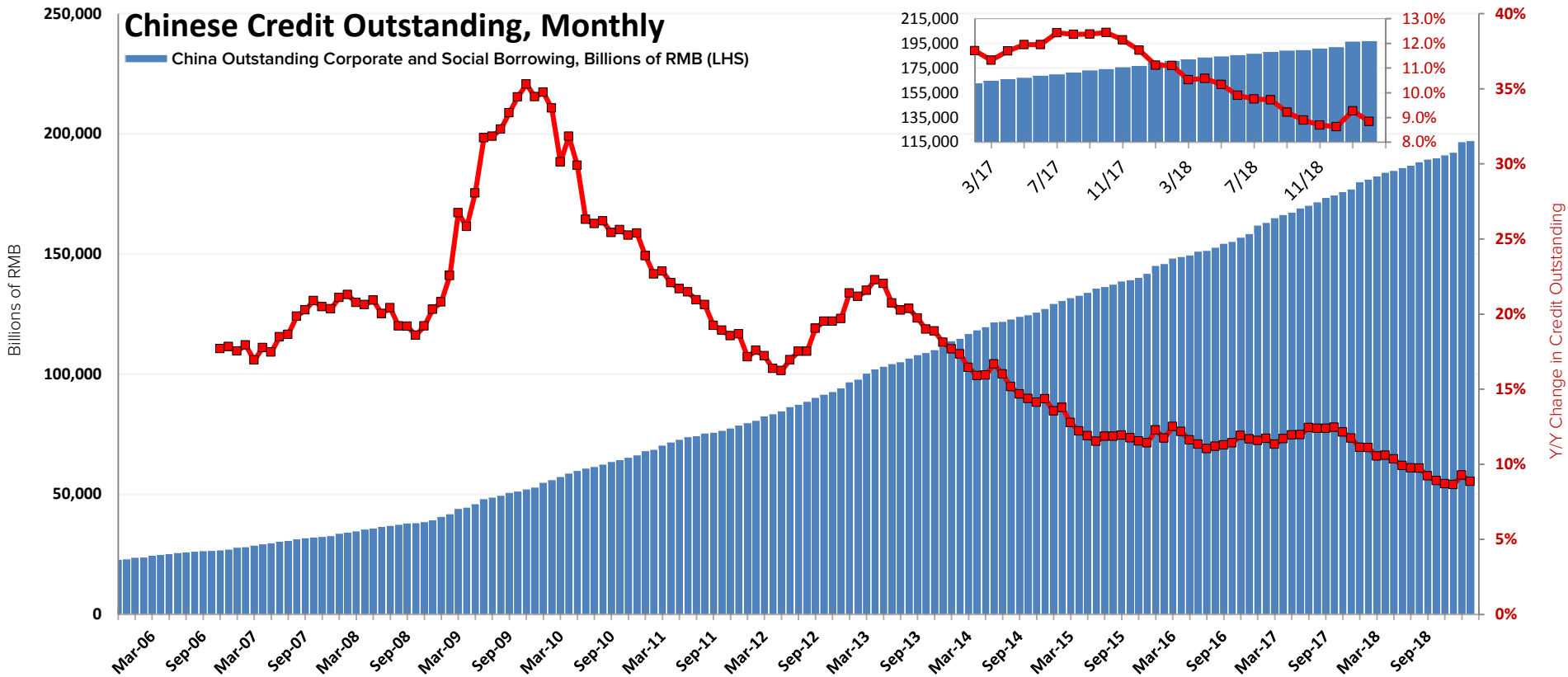
#### BEIJING HAS TO AUTHORIZE EVEN MORE STIMULUS TO COMP THESE COMPS





### 3. THE RELEVANCE OF THE CHINA SHORT CONT.

#### THE MYTHICAL “UNCOMPABLE” COMP



### 3. THE RELEVANCE OF THE CHINA SHORT CONT.

#### IN SUM,

- Harmful debt load
- Rapidly weakening economy
- On the verge of shifting into a structural current account deficit after years of surplus
- Twin deficit, closed capital account
- Trade negotiations – the U.S. dollar pain of tariffs
- Need to stem outflow of money abroad
- Capital account liberalization doubtful
  - Some symptom treatment via MSCI inclusion
- Intensified capital controls likely
- **Hence, potential Implications for Canadian Housing:**
  - **Weaker foreign real estate demand from heightened capital controls**
  - **Macro contagion effect of slowing Chinese growth given the level of integration between a resource economy like Canada and a big natural resource user like China**

# THE RUNDOWN

1

## **TWO-CYLINDER ENGINE STALLING**

The dampened outlook for an economy losing the thrust of its two historically dominant engines, housing and commodities, in addition to a diminished competitive position from an improved and increasingly friendly U.S. business climate.

2

## **HELOC? MORE LIKE HEadLOCK!**

Deteriorating household finances under the growing weight of burdensome debt loads, reflected in slowing consumer credit growth and rising insolvencies.

3

## **THE RELEVANCE OF THE CHINA SHORT**

The relevance of the broader China short case as it pertains to, among other things, the strong potential for intensified capital controls and a further weakening of foreign real estate demand given China's precarious dollar position in the face of an emerging twin-deficit problem.

4

## **RIISING TENSIONS IN CANADA-CHINA RELATIONS**

USMCA, the epic arrest of the Huawei Princess, and Chinese bans on Canadian Canola exports – with more to come.

5

## **PUBLIC ALARM OVER MONEY LAUNDERING**

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## 4. RISING TENSIONS IN SINO-CANADIAN RELATIONS

CANADA October 5, 2018 11:08 am Updated: October 5, 2018

### China says USMCA deal will prevent Canada from free trade with Beijing

By Mike Blanchfield The Canadian Press

### Huawei CFO Meng Wanzhou arrested in Canada, faces extradition to United States



By Julia Horowitz, CNN Business  
Updated 11:58 AM ET, Thu December 6, 2018



### Canada says 13 citizens detained in China since Huawei CFO arrest

PUBLISHED THU, JAN 3 2019 - 9:10 PM EST

BUSINESS NEWS MARCH 5, 2019 / 2:20 AM / 2 MONTHS AGO

### China blocks some Canada canola shipments, Ottawa expresses concern

Dominique Pilon, Rod Nickel

3 MIN READ

### China's Canola Ban Adds to Trudeau's Woes in Bitter Huawei Feud

Josh Wingrove and Peter Martin  
March 28, 2019, 12:01 AM EDT

- Beijing begins rejecting Canadian exports despite a 2016 deal
- Move is seen as another retaliatory step after CFO's arrest

1100 HONGKONG  
March 28, 2019

### Canada Take Note: Canola Shipments to China Will Keep Shrinking

Bloomberg News  
April 17, 2019, 3:12 AM EDT

SECURITY | LEER EN ESPAÑOL

### CIA reportedly says Huawei funded by Chinese state security

Telecomm giant received funding from China's military, The Times reports.

BY STEVEN MUSIL | APRIL 21, 2019 8:25 AM PDT

Canada is clearly caught in the middle of a U.S. China Thucydides Trap, and the turning point seems to have been the final shakeout in the NAFTA negotiations.

Specifically, the controversial new clause in the USMCA that calls on the countries to notify each other if they enter into trade talks with a “non-market” economy.

## 4. RISING TENSIONS IN SINO-CANADIAN RELATIONS CONT.

WORLD POLITICS

### Saudi Arabia is selling off its Canadian assets as row intensifies, report says

PUBLISHED WED, AUG 8 2018 • 9:30 AM EDT | UPDATED WED, AUG 8 2018 • 5:00 PM EDT



David Reid  
@CNBCDAVY

SHARE [f](#) [t](#) [in](#) [en](#) [...](#)

#### KEY POINTS

- Saudi Arabia has been selling Canadian assets since Tuesday, according to a report.
- Riyadh is angry at Canada's demand that two women's rights activists be released from jail.
- Canada has said it will "always stand up for human rights."

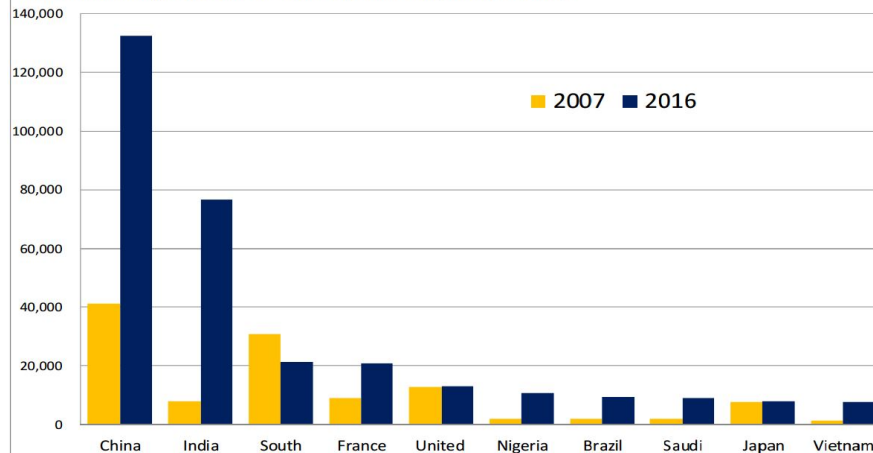
**Thousands of Saudi Arabian students have to leave Canada because their governments are fighting, so they're frantically selling their furniture and cars**

Sinéad Baker Aug. 26, 2018, 2:55 AM



#### International students studying in Canada

Number of valid study permit holders at the end of the year from the top ten countries of origin



Source: Immigration, Refugees and Citizenship Canada, RBC Economics Research

## THE SAUDI ARABIA PRECEDENT

In addition to a \$3T foreign reserve position that it can use to dump Canadian assets, a throttling or full recall of Chinese students studying abroad in Canada would have a definite dampening effect on foreign real estate demand in key markets like Toronto and Vancouver, given the extensive use of Canada's student permanent residency program by Chinese nationals to move their money outside of China.

## 4. RISING TENSIONS IN SINO-CANADIAN RELATIONS CONT.

### RECALL:

- In March of 2019, the CMHC published its latest Housing Market Insight Report.
- Previous housing data understated the amount of non-resident buyers in Vancouver and Toronto.
  - The CMHC condo survey of 2015, a busy year for the real estate market, maintained that foreign ownership of condos was low in metro Vancouver and metro Toronto, at 3.5 and 3.3 per cent respectively.
- Among the report's findings:
  - If every residential property unit that was built in the city of Vancouver from 2006 to 2017 was put into a single building, every tenth unit [and a bit more] would have been owned by somebody who doesn't live in the country
  - 20% of Vancouver's newly built condo market was purchased by non-residents from 2016-2017.
  - 9% of Toronto's new-build condos were purchased by non-residents in 2016-2017.
  - Non-residents purchased 14% of all housing units sold in the City of Vancouver in the past decade. In Richmond, the figure rises to 26% from 2016-2017.
- **These are all further exposures, and forms of integration, that China can use to apply pressure to Canada in its standoff with the United States,**

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## 5. PUBLIC ALARM OVER MONEY LAUNDERING

FENTANYL: MAKING A KILLING

### Secret police study finds crime networks could have laundered over \$1B through Vancouver homes in 2016

STORY BY

Sam Cooper

Stewart Bell

Andrew Russell

November 26th, 2018

The stately \$17-million mansion owned by a suspected fentanyl importer is at the end of a gated driveway on one of the priciest streets in Shaughnessy, Vancouver's most exclusive neighbourhood.

A block away is a \$22-million gabled manor that police have linked to a high-stakes gambler and property developer with suspected ties to the Chinese police services.

**MORE:** [Read the full Fentanyl investigation](#)

Both mansions appear on a list of more than \$1-billion worth of Vancouver-area property transactions in 2016 that a confidential police intelligence study has linked to Chinese organized crime.

The study of more than 1,200 luxury real estate purchases in B.C.'s Lower Mainland in 2016 found that more than 10 per cent were tied to buyers with criminal records. And 95 per cent of those transactions were believed by police intelligence to be linked to Chinese crime networks.

The study findings, obtained by Global News, are a startling look at what police believe to be the massive money laundering occurring in the Vancouver-area real estate market.

The illicit money yield of the continent-wide opioid crisis appears to have even played a role in helping drive the Vancouver real estate craze.

Link:  
<https://globalnews.ca/news/4658157/fentanyl-vancouver-real-estate-billion-money-laundering-police-study/>



## 5. PUBLIC ALARM OVER MONEY LAUNDERING CONT.

### An Independent Review of Money Laundering in B.C. Real Estate, Luxury Vehicle Sales & Horse Racing

#### Release of Chapter 6-4

Peter M. German, QC, PhD

Peter German & Associates Inc.

#### FINDINGS

There are no RCMP members within its federal business line in B.C. who are currently dedicated to criminal money laundering investigations.

The only dedicated money laundering resources in the RCMP within B.C. are provincial resources in the JIGIT, formed to deal with laundering in casinos.

The RCMP resources engaged on asset forfeiture work are focussed on referring cases out of the criminal justice system, to the Civil Forfeiture Office.

Law enforcement is frustratingly low on resources to combat these activities.

Link:  
[https://news.gov.bc.ca/files/An\\_Independent\\_Review\\_of\\_Money\\_Laundering\\_in\\_BC.pdf](https://news.gov.bc.ca/files/An_Independent_Review_of_Money_Laundering_in_BC.pdf)

## 5. PUBLIC ALARM OVER MONEY LAUNDERING CONT.

CRIME

March 25, 2019 8:59 am

Updated: March 25, 2019 7:37 am

### From Colombia to Lebanon to Toronto: How a DEA probe uncovered Hezbollah's Canadian money laundering ops

By Sam Cooper National Online Journalist, Investigative Global News

*Professional money laundering networks are growing in Canada, washing vast sums of cocaine and fentanyl cash, and helping to drive up prices in Vancouver and Toronto real estate. Canada's federal government proposed a new federal anti-money laundering task force last week, specifically to tackle these concerns. But according to U.S. law enforcement sources, Canada has been aware of this for over a decade. This story explains untold international details behind recent RCMP investigations, missed early warnings, and lessons from Australian police, that could jump-start Canada's late response to these growing risks, sources say.*

In January 2008, a team of U.S. Drug Enforcement Administration agents travelled to Ottawa to meet with RCMP leaders. They had stunning news. The DEA said an elite group of Middle East narco-terrorists in Colombia was using Canada as a key money laundering hub.

According to a former senior U.S. official with knowledge of the meeting, the DEA had "dirty calls" — meaning calls providing criminal evidence of cocaine shipments and cash movements in Canada — from narco-kingspins in Colombia to a network of operatives in Halifax, Vancouver, Calgary, and London, Ont.

The evidence included allegations from an elite Colombian police unit and extensive DEA phone tap records.

"We were giving RCMP dirty calls to phone numbers and identified targets in Canada," the former official said. "In our minds that should have been enough to begin intercepts in Canada."

But RCMP leaders didn't want to pursue the cases, according to the former official.

He said the RCMP cited differences between Canadian and U.S. court disclosure rules, and questions about the DEA's use of confidential sources.

The U.S. source believes the RCMP missed an early opportunity to fight the incursion of sophisticated professional money laundering networks with ties to China, the Middle East, Colombia and Mexico that are now plaguing Vancouver, Toronto, and Montreal.

"We were dumbfounded," the U.S. source said.

In addition to not having suitable resources in place to tackle a clearly widespread problem, soft laws appear to also be a contributing factor.

Link:  
<https://globalnews.ca/news/5084587/hezbollahs-canadian-money-laundering-ops/>

## 5. PUBLIC ALARM OVER MONEY LAUNDERING CONT.

CANADA

April 2, 2019 9:59 am

Updated: April 2, 2019 11:06 am

### U.S. deems Canada ‘major money laundering country’ as gangs exploit weak law enforcement

By Sam Cooper National Online Journalist, Investigative Global News

The U.S. Department of State has designated Canada a “major money laundering country” where foreign drug-trafficking gangs are exploiting weak law enforcement and soft laws.

The March 2019 report, which places Canada on a short list of countries vulnerable to significant drug money laundering transactions — such as Afghanistan, the British Virgin Islands, China, Colombia and Macau — underlines a number of threats reported over the past year in Global News investigations, such as the laundering of fentanyl-trafficking proceeds from China through British Columbia casinos, real estate and underground banks.

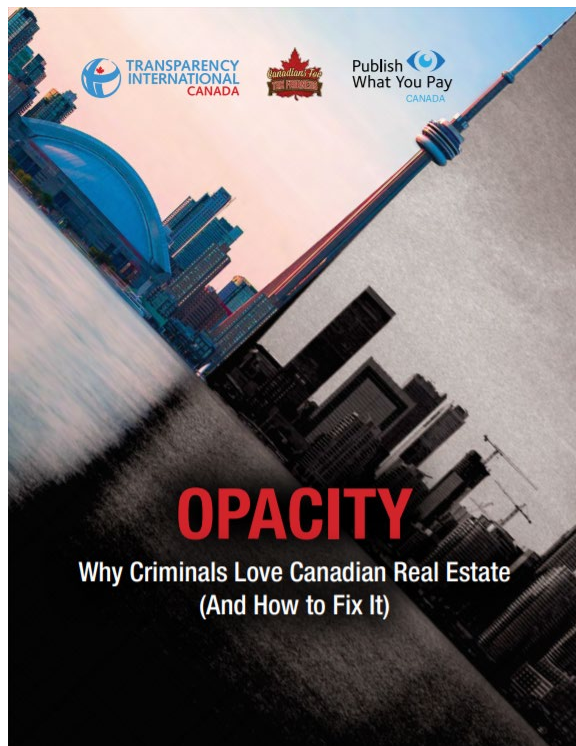
The report says Canada is especially vulnerable to money laundering through casinos, real estate, money services businesses, currency exchanges, wire exchanges, offshore corporations, legal “funnel accounts” and bulk cash and hawala transactions — meaning international exchanges of credit and debt between criminal bankers without money actually crossing borders.

In fact, the problem is so dire that Canada has recently landed on the State Department’s exclusive list of major money laundering centers.

Link:  
<https://globalnews.ca/news/5102137/us-canada-major-money-laundering-country/>

## 5. PUBLIC ALARM OVER MONEY LAUNDERING CONT.

### BOMBSHELL TRANSPARENCY INTERNATIONAL REPORT ON GTA HOUSING



- In March of 2019, Transparency International Canada (TIL) published an in-depth review of the state of money laundering in Canada, entitled “Opacity: Why Criminals Love Canadian Real Estate (And How to Fix It)”
- **Among the report’s findings:**
  - Corporate entities acquired **\$28.4 billion in GTA housing** from 2008-2018, mostly privately-owned with no information on the beneficial owners.
  - **\$9.8 billion in GTA housing** was acquired by companies using cash to purchase, bypassing AML checks on sources of funds.
  - Corporate ownership accounts for a **staggering 37% of homes valued at over \$5 million** and **more than half of homes valued at over \$7 million.**
- <http://www.transparencycanada.ca/wp-content/uploads/2019/03/BOT-GTA-Report-WEB-copy.pdf>

The issue is increasingly drawing scrutiny from concerned citizens, eager to trigger a series of strong regulatory responses.

# Canada Has a Money Laundering Problem It's Pledging to Fix

By [Natalie Obiko Pearson](#)

March 27, 2019, 9:16 PM EDT

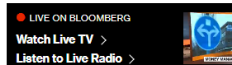
Trudeau's federal budget tabled last week proposed to spend more than C\$190 million on measures to tackle money laundering and tax evasion. It also proposed legislative amendments to make it easier to identify the beneficiary owners of private companies, often used to hold property anonymously, and to also make it easier to prosecute individuals believed to be handling suspicious funds.

## New Registry Plans to Expose Hidden Vancouver Property Owners

By [Natalie Obiko Pearson](#)

April 2, 2019, 6:51 PM EDT

- ▶ Province proposes bill to peel back anonymous ownership
- ▶ Shells, trusts failing to disclose may face C\$100,000 fine



### Regulatory Response:

B.C. provincial government is **leading the way** with the **land owner transparency act**, which if passed, will establish a public registry of beneficial owners of property in B.C., meaning true ownership will no longer be hidden. The act will require corporations, trusts and partnerships, which currently own or buy land, to disclose their beneficial owners in the registry. Corporations, trusts and partnerships that fail to disclose could face fines of up to \$100,000 or 15% of the assessed property value, whichever is greater.

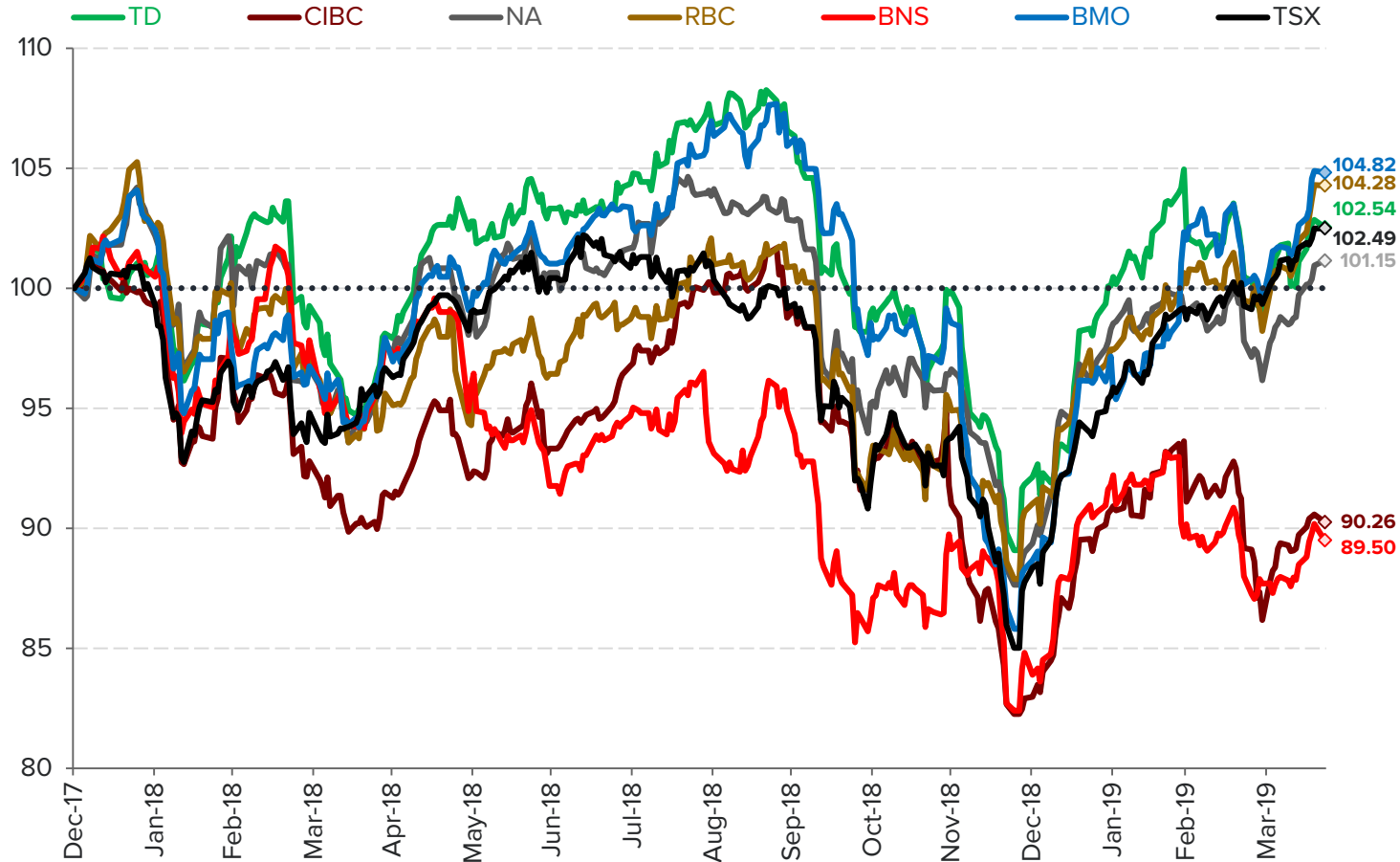
We believe this will be a major source of pressure on incremental foreign demand from illicit sources that have played a well-documented role in driving up real estate prices in markets like the Greater Vancouver Area.

Moreover, at the federal level, a further good sign rests in the proposed changes to Canada's AML regime to make it easier to investigate suspected money-laundering, share information among government entities, pursue enforcement action and publicize violations and penalties for wrongdoing.



## THE BIG 6 BANKS

# YTD PRICE PERFORMANCE



CIBC and BNS have performed worst in the last 15 months..

# THE BIG 6 – RESIDENTIAL MTG + HELOC EXPOSURE

The Big 6: Canadian Residential Mortgage and HELOC Exposure as at January 31, 2019 / 1Q19

CAD (MM)	BMO			BNS			CM		
	Insured	Uninsured	Total	Insured	Uninsured	Total	Insured	Uninsured	Total
Ontario	18,444	43,600	62,044	41,050	79,205	120,255	33,200	81,400	114,600
British Columbia	5,866	21,106	26,972	13,429	29,634	43,063	11,800	35,100	46,900
Alberta	10,349	8,877	19,226	18,113	15,695	33,808	14,400	13,900	28,300
Quebec	8,019	13,277	21,296	7,658	9,332	16,990	6,300	9,800	16,100
Other	5,426	5,327	10,753	11,441	11,306	22,747	8,600	8,700	17,300
Total	48,104	92,187	140,291	91,691	145,172	236,863	74,300	148,900	223,200
% of Total									
Ontario	13%	31%	44%	17%	33%	51%	15%	36%	51%
British Columbia	4%	15%	19%	6%	13%	18%	5%	16%	21%
Alberta	7%	6%	14%	8%	7%	14%	6%	6%	13%
Quebec	6%	9%	15%	3%	4%	7%	3%	4%	7%
Other	4%	4%	8%	5%	5%	10%	4%	4%	8%
	34%	66%	100%	39%	61%	100%	33%	67%	100%
Gross Consolid. Loans	399,232			571,216			376,776		
Mtg Book % of Total	35%			41%			59%		

CIBC (TSX:CM) has the greatest uninsured exposure to Ontario and B.C., home to Canada's two most notorious property markets.



# THE BIG 6 – RESIDENTIAL MTG + HELOC EXPOSURE

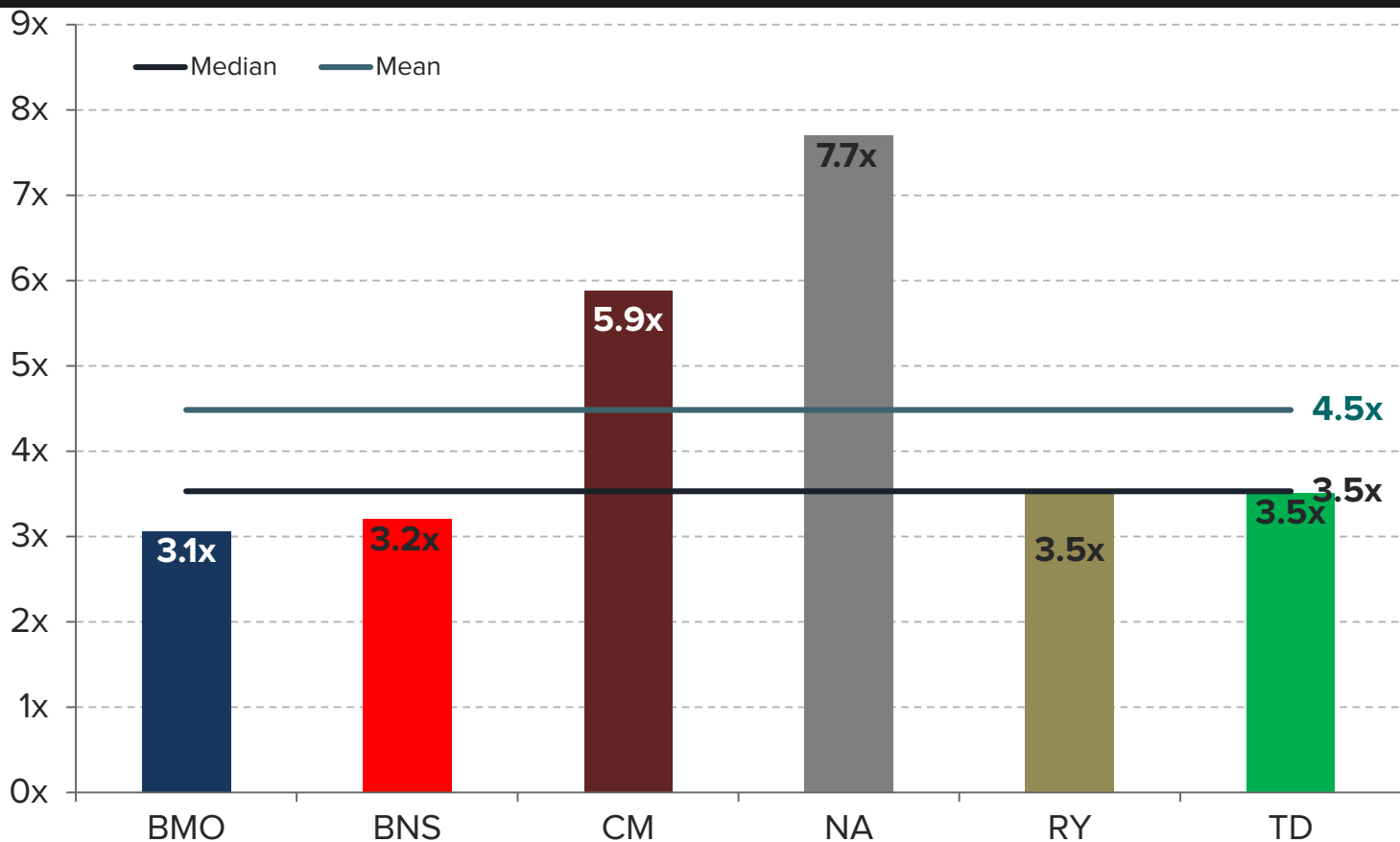
The Big 6: Canadian Residential Mortgage and HELOC Exposure as at January 31, 2019 / 1Q19

CAD (MM)	NA			RY			TD		
	Insured	Uninsured	Total	Insured	Uninsured	Total	Insured	Uninsured	Total
Ontario	7,497	10,441	17,938	37,802	97,183	134,985	41,261	102,510	143,771
British Columbia	2,151	2,359	4,510	15,274	42,248	57,522	14,000	38,360	52,360
Alberta*	3,537	1,712	5,249	20,490	23,629	44,119	26,632	26,102	52,734
Quebec	12,678	24,138	36,816	12,777	23,031	35,808	10,236	14,077	24,313
Other	2,089	1,303	3,392	16,525	19,547	36,072	3,869	3,908	7,777
Total	27,952	39,953	67,905	102,868	205,638	308,506	95,998	184,957	280,955
% of Total									
Ontario	11%	15%	26%	12%	32%	44%	15%	36%	51%
British Columbia	3%	3%	7%	5%	14%	19%	5%	14%	19%
Alberta	5%	3%	8%	7%	8%	14%	9%	9%	19%
Quebec	19%	36%	54%	4%	7%	12%	4%	5%	9%
Other	3%	2%	5%	5%	6%	12%	1%	1%	3%
	41%	59%	100%	33%	67%	100%	34%	66%	100%
<b>Total Gross Loan Book</b>	<b>147,374</b>			<b>592,881</b>			<b>652,197</b>		
Mtg Book % of Total	46%			52%			43%		

\*TD accounts for Alberta loans within its Prairies grouping

Royal Bank of Canada (TSX:RY) has the largest uninsured domestic mortgage book both on an absolute and relative basis.

# UNINSURED BOOK TO REGULATORY CAPITAL



Source: Company Documents

© Hedgeye Risk Management

National Bank's (TSX:NA) uninsured mortgage book amounts to 7.7x of CET1, albeit a large part of that book is based in Quebec.

Meanwhile, CIBC's uninsured book constitutes 5.9x its CET1 capital, while maintaining the largest exposure to Ontario and B.C. among the big 6 banks.



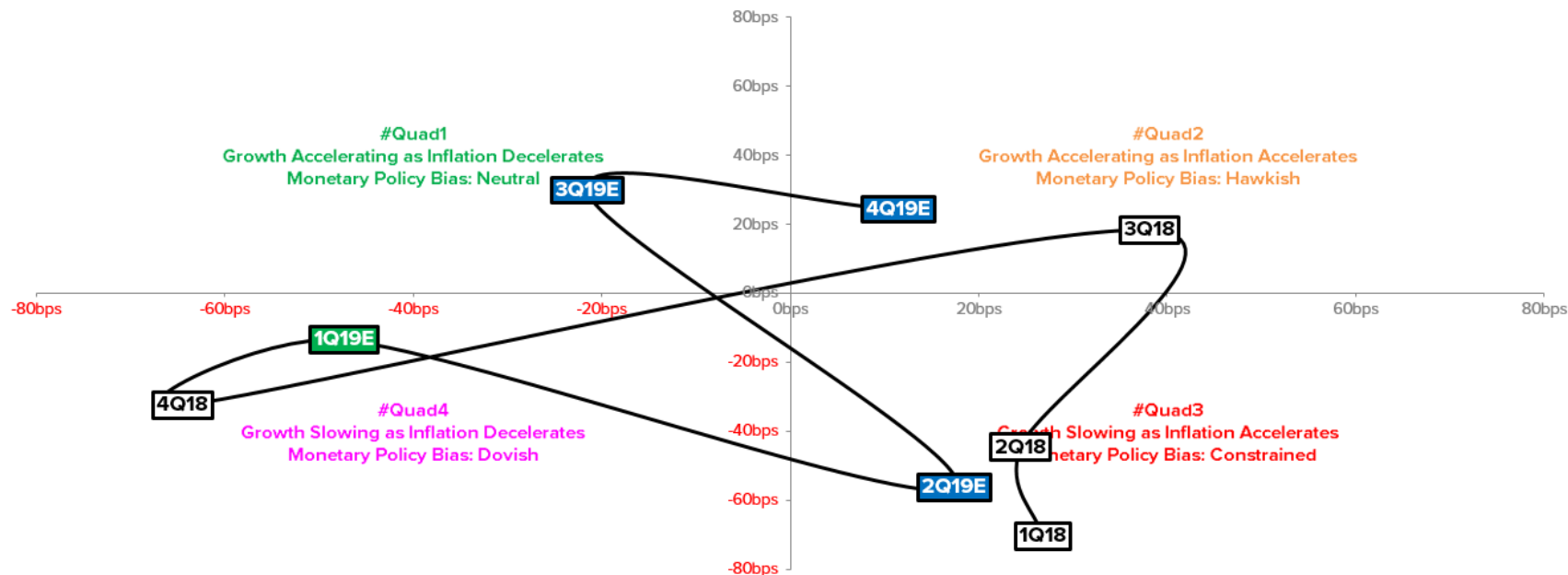
## **HEDGEYE MACRO OVERLAY**

# HEDGEYE MACRO'S QUAD FRAMEWORK

Canada	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	← Actuals   Estimates →	1Q19E	2Q19E	3Q19E	4Q19E
Real GDP QoQ	2.41%	-1.79%	4.41%	2.33%	4.09%	4.39%	1.31%	1.71%	1.27%	2.57%	2.04%	0.41%	Hedgeye Estimates	-	-	-	-
YoY Hurdle Rate	-2.13%	-1.05%	1.42%	0.27%	2.41%	-1.79%	4.41%	2.33%	4.09%	4.39%	1.31%	1.71%	YoY Hurdle Rate	1.27%	2.57%	2.04%	0.41%
Real GDP YoY	0.75%	0.56%	1.30%	1.81%	2.23%	3.80%	3.02%	2.86%	2.16%	1.71%	1.90%	1.57%	Hedgeye Estimates	1.44%	0.87%	1.17%	1.41%
2Y Comparative Base Effect	2.34%	1.91%	1.69%	1.19%	1.41%	0.71%	0.78%	0.71%	1.49%	2.18%	2.16%	2.34%	2Y Comparative Base Effect	2.19%	2.76%	2.46%	2.22%
Headline CPI YoY	1.54%	1.55%	1.23%	1.39%	1.91%	1.32%	1.37%	1.79%	2.06%	2.30%	2.68%	2.04%	Headline CPI YoY	1.56%	1.74%	1.52%	1.63%
2Y Comparative Base Effect	1.23%	1.56%	1.64%	1.63%	1.31%	1.23%	1.21%	1.36%	1.73%	1.44%	1.30%	1.59%	2Y Comparative Base Effect	1.98%	1.81%	2.03%	1.91%

## Canada

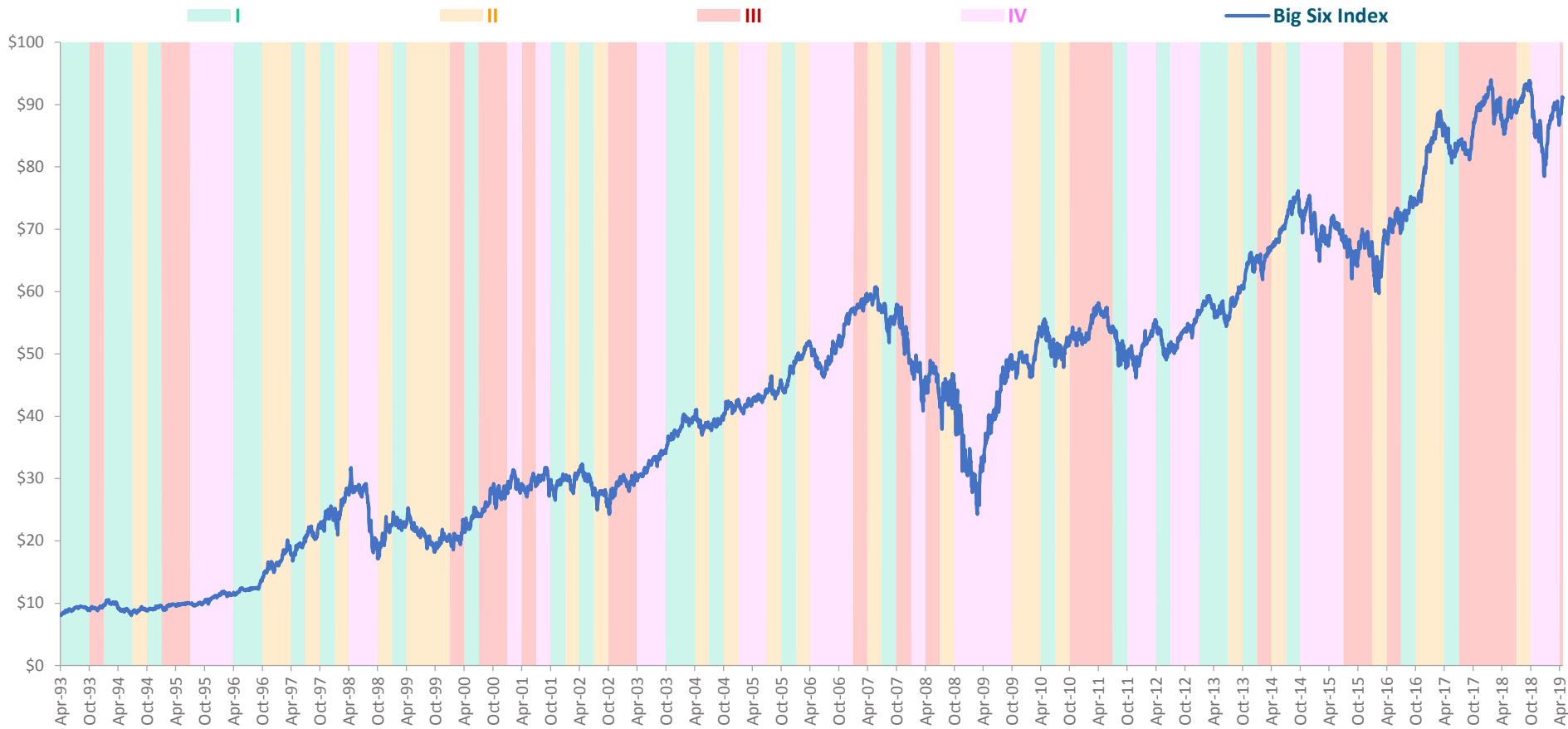
◆ x-axis: Second Derivative of YoY Headline CPI;  
y-axis: Second Derivative of YoY Real GDP



Data Source: Bloomberg. Green box = Hedgeye Predictive Tracking Algorithm nowcasts. Blue boxes = Hedgeye Comparative Base Effect Model estimates.

© Hedgeye Risk Management

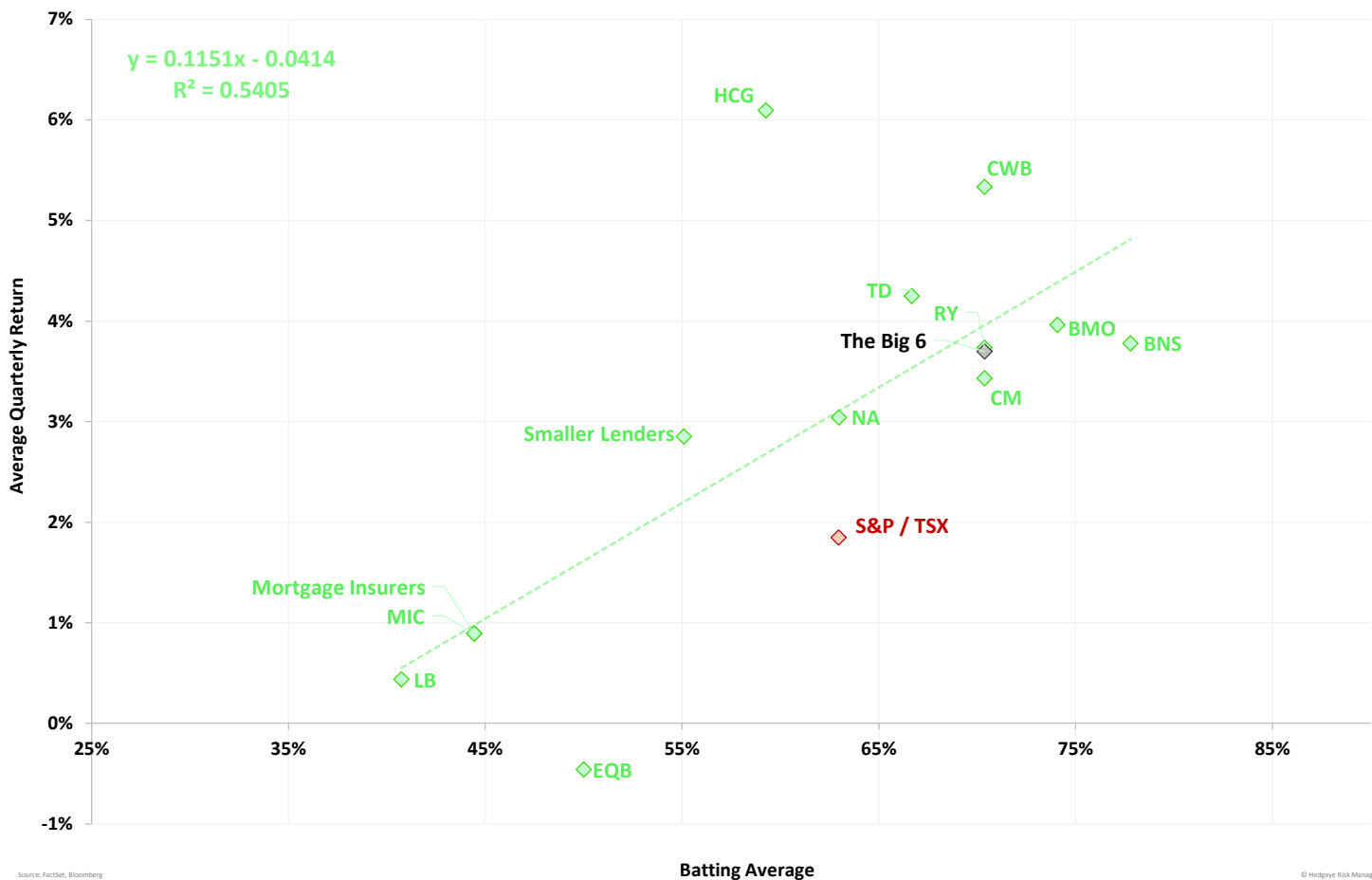
# “BIG 6” CANADIAN BANK INDEX CAP-WEIGHTED



Source: FactSet, Bloomberg

© Hedgeye Risk Management

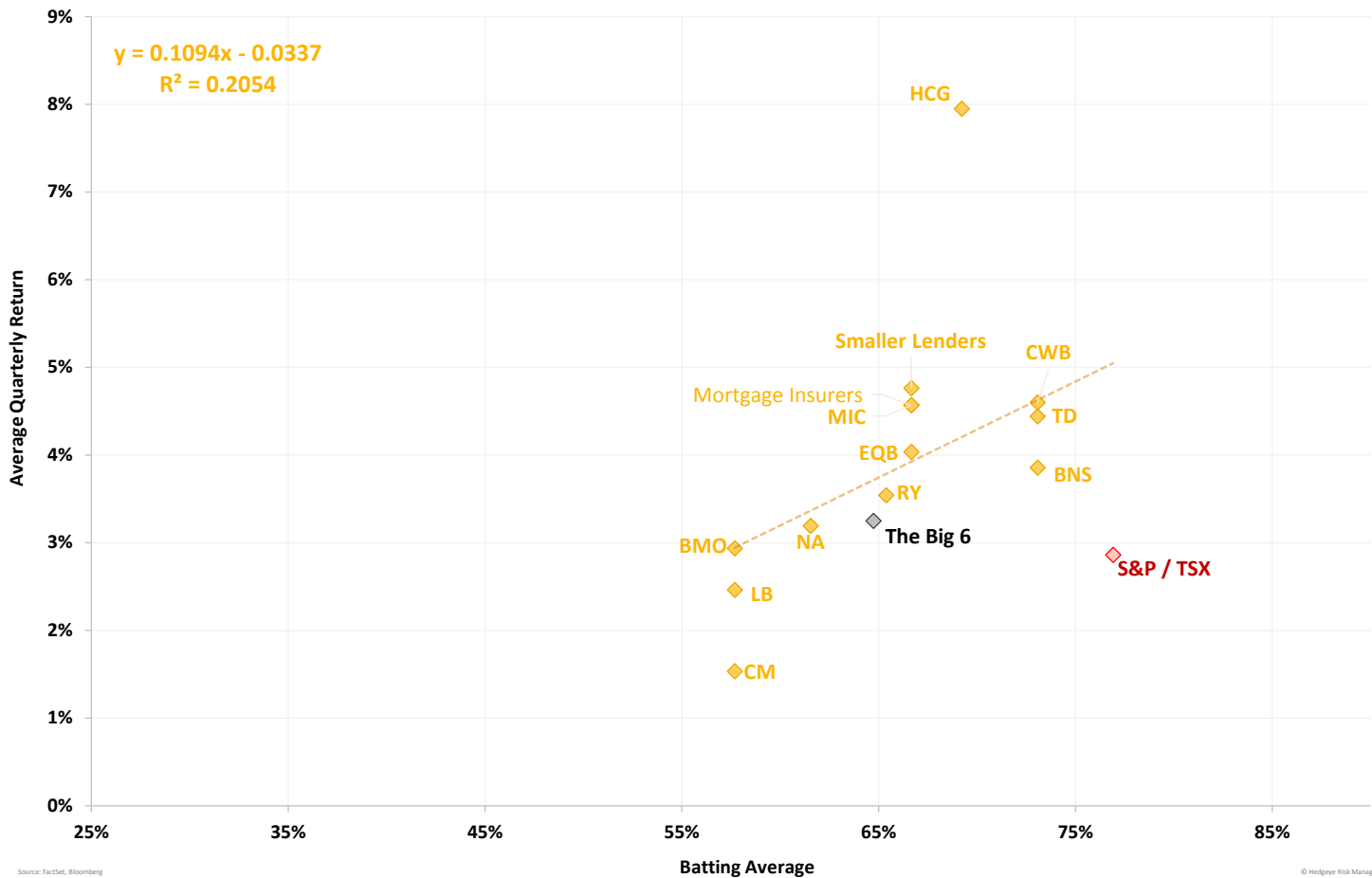
# NAMES OF INTEREST – QUAD I



Sample Space:

The Big 6	Smaller Lenders	Mortgage Insurers
RY	HCG	MIC
TD	LB	
BMO	EQB	
BNS		
CM		
NA		

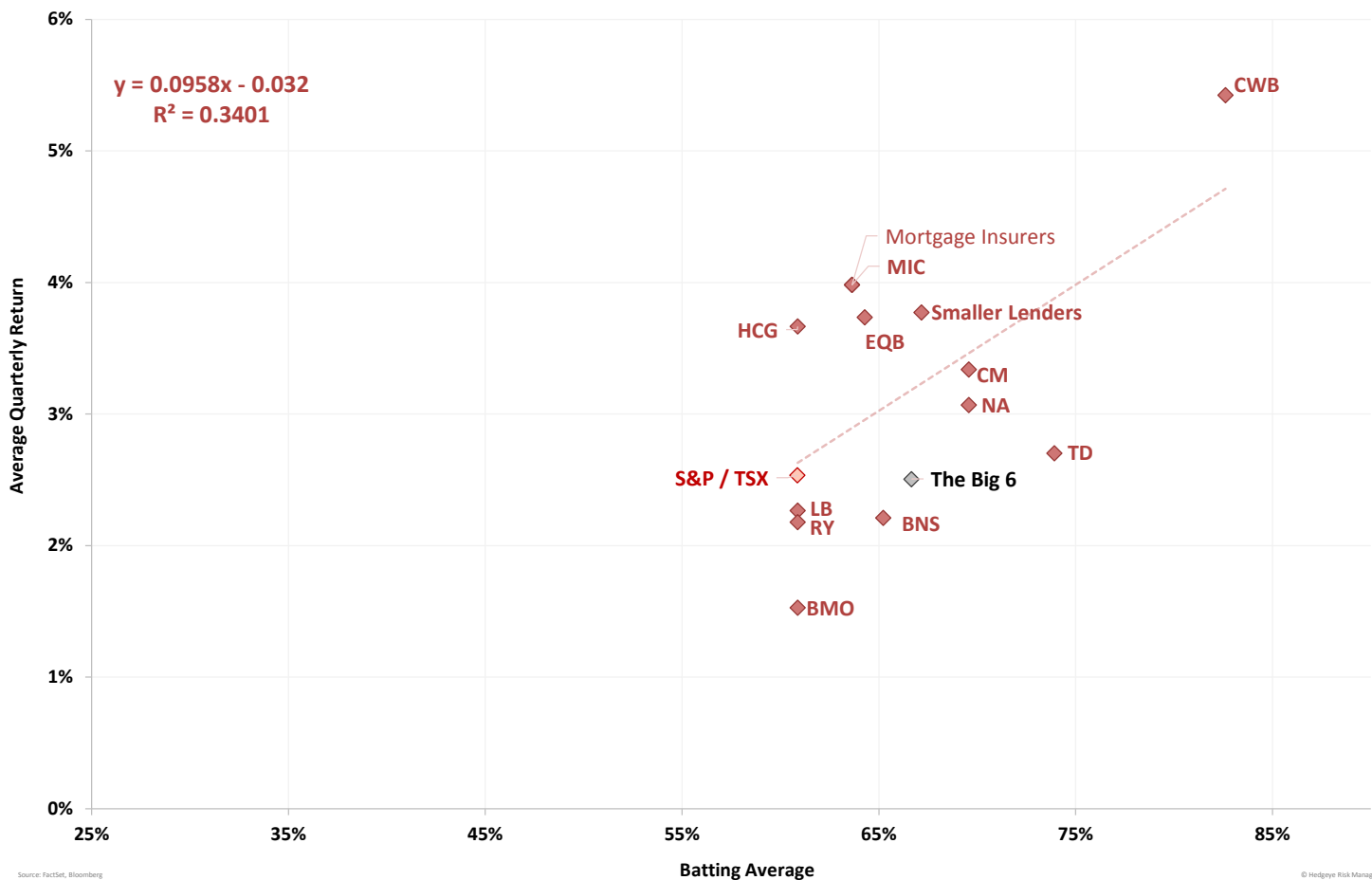
# NAMES OF INTEREST – QUAD II



Sample Space:

The Big 6	Smaller Lenders	Mortgage Insurers
RY	HCG	MIC
TD	LB	
BMO	EQB	
BNS		
CM		
NA		

# NAMES OF INTEREST – QUAD III

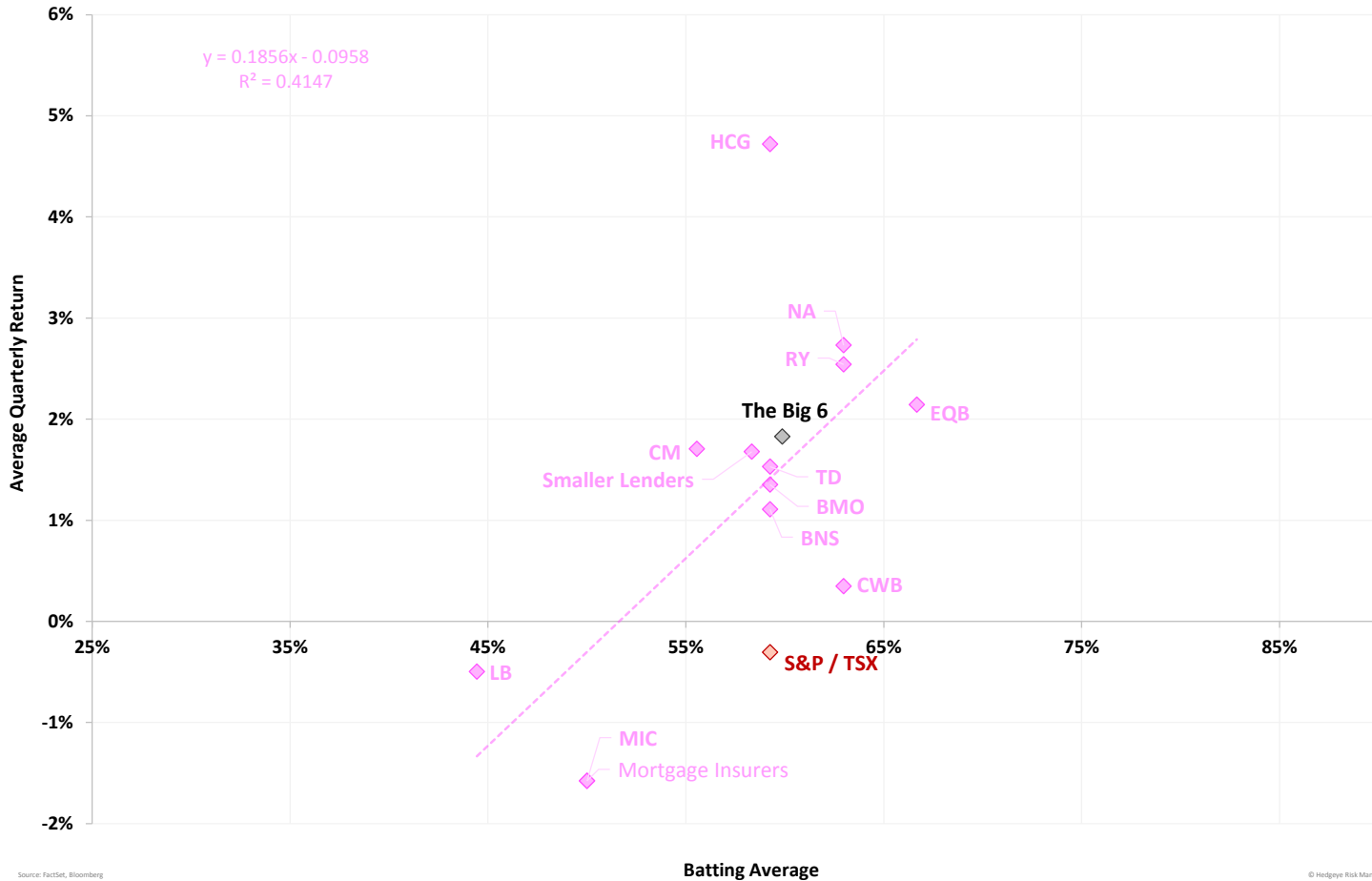


## Sample Space:

The Big 6	Smaller Lenders	Mortgage Insurers
RY	HCG	MIC
TD	LB	
BMO	EQB	
BNS		
CM		
NA		



# NAMES OF INTEREST – QUAD IV

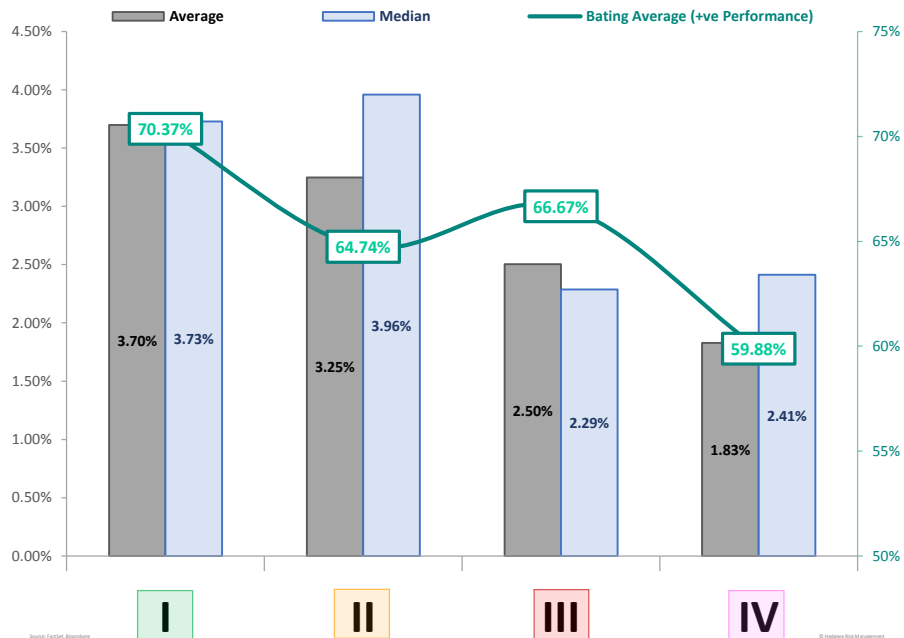


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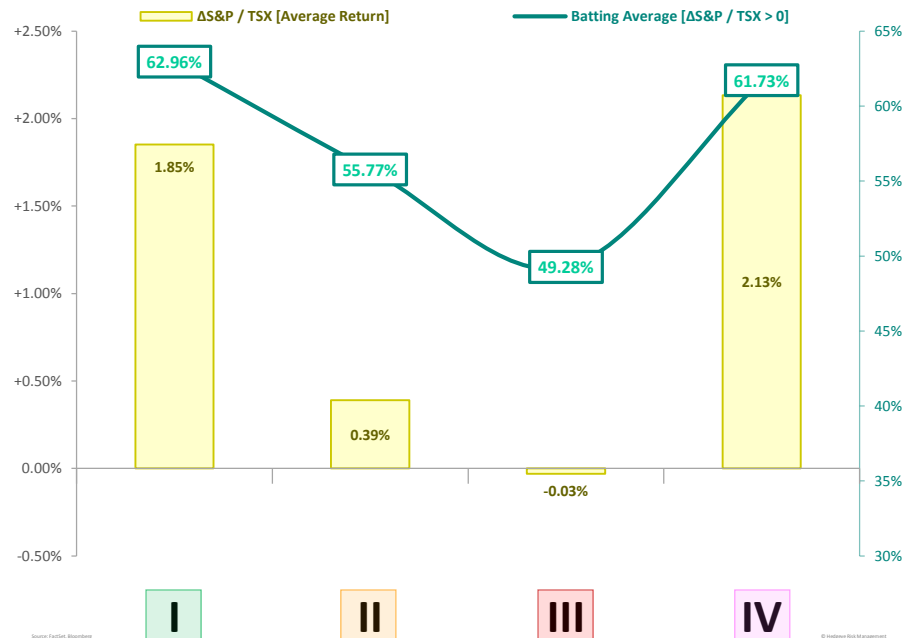
The Big 6	Smaller Lenders	Mortgage Insurers
RY	HCG	MIC
TD	LB	
BMO	EQB	
BNS		
CM		
NA		

# THE BIG 6 CANADIAN BANKS

QUARTERLY RETURNS BY QUAD



QUARTERLY RETURNS BY QUAD



On an absolute basis, Quads III and IV are the weakest environments for the Big 6; however, in Quad IV, the Big 6 are, on average, relative outperformers.

# THE BIG 6 CANADIAN BANKS

## Quarterly Returns

	I	II	III	IV
Average	3.70%	3.25%	2.50%	1.83%
$\Delta$ S&P / TSX [Average Return]	1.85%	0.39%	-0.03%	2.13%
Median	3.73%	3.96%	2.29%	2.41%
Maximum	23.08%	24.39%	12.07%	28.68%
Minimum	-12.28%	-13.36%	-7.85%	-21.48%
Standard Deviation	7.67%	8.62%	5.50%	11.16%
Downside Deviation	5.57%	6.09%	3.64%	7.76%
Sharpe Ratio	0.48918	0.38191	0.46723	0.16421
Sortino Ratio	0.69503	0.53472	0.70462	0.23856
Batting Average [ $\Delta$ S&P / TSX > 0]	70.37%	64.74%	66.67%	59.88%
Batting Average [ $\Delta$ S&P > 0]	62.96%	55.77%	49.28%	61.73%

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