

## THE REISS REPORT

### CONDO REAL ESTATE BLOG

We are seeing another year impacted by rising mortgage rates and in July the Bank of Canada increased the overnight rate for the 10th time since March 2022. At that time, rates were rock bottom at 0.25% but now they sit at 5%, the highest they have been in 22 years. Despite the rising interest rates, condominium activity in the local market is weathering the rapid rate hikes surprisingly well, based on June market results.

#### INFLATION AND INTEREST RATE IMPACTS

As acknowledged in the 2023 first quarter report, buyers of any property type, including condominiums, are being impacted by the rising cost of living and inflationary environment. It is hard not to turn on a radio or television or check your media feed on your smartphone without hearing or reading commentary on the economy and what the latest statistics are showing in terms of taming runaway inflation from 2022 and practical solutions to help Canadians meet rising debt levels owing to higher food and gas prices.

Based on most recent reporting, inflation is coming down despite continuing strong job numbers well into 2023 and the economy operating at levels better than expected. This means the Bank of Canada will be more reluctant to proceed with any more interest rate increases. Though, as Bank of Canada Governor Tiff Macklem has mentioned, to get to his target inflation rate of 2%, he needs to see more evidence of further inflation cooling and stabilization before rate increases subside.

It is also worth noting the period projected to when this may happen has been extended out to 2025 so Canadians can expect these higher rates to remain in place for some time. Get used to them and adjust your plans accordingly!

Another key point to make is when it comes to Winnipeg's condominium market, we have some of the most affordable prices in the country, so the impact of higher mortgage rate increases is not as significant as it is in other markets, and it has not curtailed sales as much as you might have thought.

Many condo sales in our market have mortgage amounts in the \$200,000 range or even less. The increase in monthly mortgage costs are about \$225 per month per \$100,000 of mortgage, with rates going from 2% to 6%, according to James Laird of Ratehub.ca. While this increase is painful in our market with respect to your household budget, it is less so than markets elsewhere that require much higher mortgage amounts.

#### SECOND QUARTER RESULTS

Without trying to get ahead of ourselves, let's look at April and May numbers to see how the MLS® market performed this year in comparison to the same months in previous years.

April sales fared poorly to kick off the second quarter of 2023. Condominium sales of only 171 were down 25% from April 2022 and well off the high mark set in 2021 when there were 269 sales. A clear sign of a less active April in 2023 comes from the real estate board's busiest condo MLS® area of Osborne Village. Whereas active listings were almost identical the prior two years for April at the 50-mark, sales in 2023 were down to 13 as compared to 25 in 2022 – an almost 50% decline.

However, slower sales activity did not negatively affect the average sales price, as it held firm at over \$258,000, a slight decrease of 1% from the same month a year ago. Conversions of new and active listings fell off noticeably but that had as much to do with a better supply of condo listings to choose from with nearly 500 compared to 341 last year. More listings are an indicator that



sellers are prepared to get back into the market. Then it is just a matter of time to see if buyer resistance will thaw out later in the spring market.

Despite much slower sales in April, this month resulted in one of the highest condo sale prices on record with a \$1,375,000 sale. This sale is a new bungalow style condo located immediately south of Royalwood and east of St. Anne's Road within the city of Winnipeg.

In May, sales were considerably better at 223 but still down 12% from May 2022 and down 23% from the highest all-time monthly record of May 2021 when there were 291 sales. However, if you go back to the first normal pre-pandemic month in 2019, sales are up 12%. May 2023 also outperforms the same month in 2017 and 2018.

Like April, from an annual comparison perspective, May's average sales price of \$266,845 is close to the average sales price in May 2022 as it was up less than 2%. Active listings or existing inventory at the end of May of 525 has risen 31% over 2022 but well down from the 954 listings in 2019. This translates to a continuation of a tighter condo market in 2023. With sales exceeding 200 every month, as will likely be the case well into the third quarter, this means the supply would be depleted in two and one-half months if there are no new listings coming onto the market. A balanced market is more in the four-to-five-month range.

As for sales in May going for at, below, or above list price, the additional listings this year are helping keep the condo market from overheating, as 75% of all sales went for below list price while 15% went for above list. The prior year, half of all sales sold for below list price while 35% went for above list.

June 2023 condo sales activity was actually highlighted in the Winnipeg Regional Real Estate Board's market and video release reports and deservedly so. WRREB president Rena Prefontaine mentioned sales of 251 are up 10% over June 2022 and 16% over the 5-year average and stated the fact that year-to-date condo sales for the first half of 2023 are third highest on record.

An impressive 90% of the equivalent number of new listings coming onto the market in June were sold while 54% of all existing inventory turned over in June. This compares very favorably with June 2022 where the percentages for sales to current or new listings and sales to active or existing inventory are 64% and 48% respectively.

Other than the unusually high average sales price of \$278,266 in June 2022, this year's June average sales price of \$258,170 is consistent with what we have seen through the second quarter and above previous June numbers such as in 2019 when it was \$244,687.

Owing to a more challenging mortgage rate and stress test qualifying environment in 2023, it comes as no surprise that June experienced its most sales activity (23% of total sales) in the \$150,000 to \$199,999 price range instead of the next higher range, which also was the case in June 2022. This speaks to our local market's affordability in that many listings are still available in

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the lower price range for sale. Also reinforcing condo affordability is the fact that another 15% of all total June sales sold for under \$150,000. Only 3% sold for above \$500,000 with the highest sale price in June being \$716,000.

Also, worth noting about the year-to-date condo report, is a number of MLS® condo areas are seeing strong conversions of listings to sales, for listings entered this year. For example, Tuxedo has seen 41 of its 44 listings sold so far this year and River Park South has a high conversion of 81% with 42 of its 52 listings sold. In rural Manitoba, the Winkler/Morden MLS® area has done amazingly well too with 47 of its 51 listings selling.

Nonetheless with an overall market region conversion rate of 63%, other MLS® areas could be converting more listings, so it will be one performance metric to watch in the third quarter to see if there is some improvement. Can both Waverley West and Linden Wood's well established condo market MLS® areas see their percentage conversions go up from the low 70s at present? And let's not forget the downtown which has fallen from 59% in 2022 to just a 40% conversion of listings to sales this year.

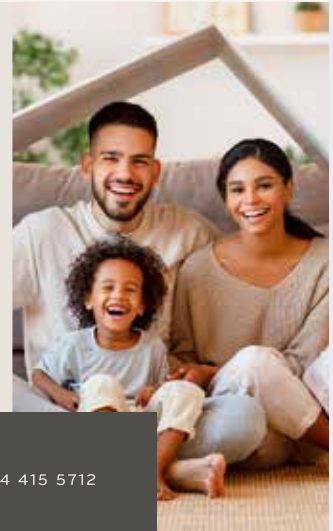
In summary, we have had a slow start to the second quarter in April but much better in May and June. This should portend well for the summer as July and August condominium sales could deliver solid results with sales close to the 200 unit level.

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