Sotheby's INTERNATIONAL REALTY | Canada

Top-Tier Real Estate

MID-YEAR-IN-REVIEW

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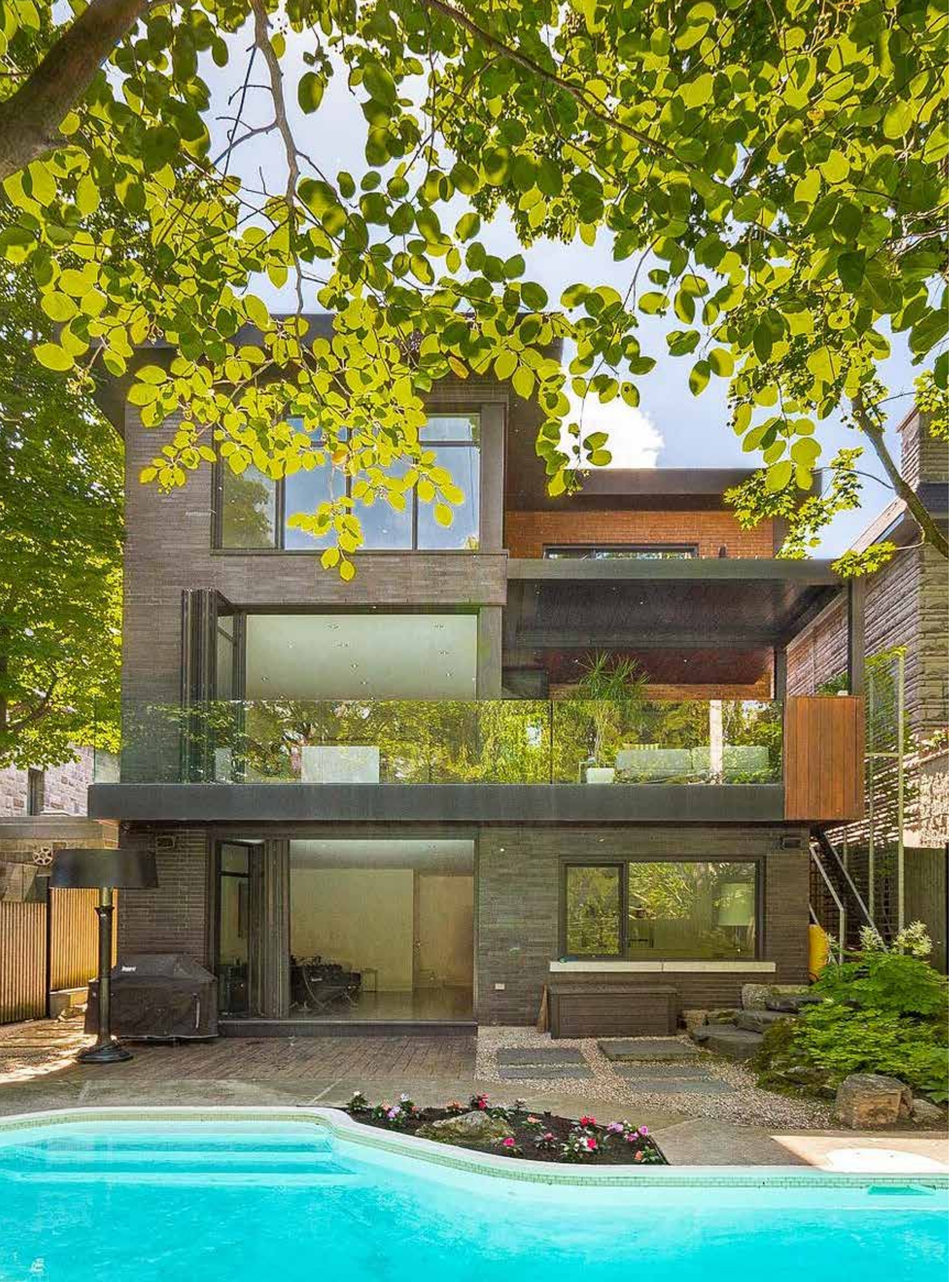

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Executive Summary

MID-YEAR HIGHLIGHTS

- Canada's luxury market is normalizing following its historically anomalous performance as rising mortgage rates, escalating inflation and global geo-economic headwinds progressively temper real estate consumer sentiment.
- Near-term hesitancy masks strong demand for housing and housing mobility, and consumer confidence in the long term fundamentals of top-tier real estate remains strong.
- The top-tier condominium market remains resilient in a rebalancing market, bolstered by multi-generational consumer demand, and housing affordability challenges that is channeling prospective buyers into high-density housing.
- Calgary led Canada's major metropolitan markets in percentage sales gains across the $1 million-plus residential market as overall activity rose 40% year-over-year and $1 million-plus single family home, attached home and condominium sales posted annual gains of 36%, 85% and 89% respectively.
- Luxury Montréal sales over $4 million remained strong as sales increased 71% year-over-year in the first half of 2022, while $1 million-plus sales were on par with historic highs set in the first half of 2021 with a nominal 1% contraction.
- As the market normalized, Greater Toronto Area luxury residential sales over $4 million surpassed the historic highs achieved in the first half of 2021 with a 7% year-over-year increase in sales, while $4 million-plus transactions in the City of Toronto were up 16%. Condominium sales over $1 million in the GTA and City of Toronto saw annual gains of 53% and 26% respectively.
- Vancouver saw a sharp shift in luxury consumer sentiment in the second quarter of the year and transitioned from a fevered sellers' market to one that is more balanced. Overall, $4 million-plus sales fell 18% year-over-year in the first half of 2022, however, condominium sales over $1 million and $4 million were up 20% and 32% year-over-year.

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National Summary

The performance of Canada's major metropolitan real estate market remained an unprecedented economic anomaly from March 2020 through to the first quarter of 2022. Fuelled by pandemic-driven lifestyle needs, historically low interest rates and endemic shortages in housing supply, sales activity and prices across the country's conventional and luxury market soared to historic highs across every major urban market, and across every housing type. Following this unforeseen and anomalous era, the Canadian real estate market normalized through the second quarter of 2022. In light of rising inflation, increasing mortgage rates and global geo-economic volatility, near-term consumer concerns helped normalize sales activity, despite the fact that underlying confidence in the fundamentals of the luxury and conventional housing markets remain strong – as is the demand for housing.

According to Sotheby's International Realty Canada's Top-Tier Real Estate: Mid-Year Report, residential sales in Canada's largest luxury real estate market moderated through the first half of 2022. Even as the market gradually came into balance, Greater Toronto Area (Durham, Halton, Peel, Toronto and York) residential real estate sales (condominiums, attached and single family homes) over $4 million were up 7% year-over-year from previous records set in the first half of 2021. Sixteen properties sold over $10 million on MLS, one unit more than the record number of ultra-luxury properties sold above this price point in the first half of 2021. $4 million-plus condominium and attached home sales posted annual gains of 13% and 100% in the first half of 2022, surpassing previous record activity in the first six months of 2021, while single family home sales over $4 million were up a modest 6%. Overall, residential sales over $1 million were down 10% in the GTA in the first half of 2022.

Vancouver's luxury residential real estate market experienced a sharp change in sales activity and consumer sentiment between the first and second quarter of 2022, as the city's fevered sellers' market calmed. In the first half of 2022, overall luxury residential sales over $4 million decreased 18% from the same period in 2021. Nine properties sold over $10 million on MLS during this time, compared to 16 sold in the first half of last year. While sales of $4 million-plus single family and attached homes fell 22% and 40% year-over-year from historic records from the first half of 2021, luxury condominium sales over $4 million were up 32% year-over-year. Residential sales over $1 million were down 18% year-over-year in the first half of 2022 as the city's market shifted into more balanced conditions.

Even as Montréal's residential sales activity normalized from its record-breaking highs of 2021, the city's $4 million-plus residential real estate market saw sales volume increase 71% year-over-year in the first half of 2022, while sales over $1 million remained on par with the previous year with a nominal 1% annual decline. $1 million-plus condominium sales experienced the most significant year-over-year percentage gains of the residential housing types at 29%, while sales of single family and attached homes over $1 million fell 9% and 10% year-over-year respectively. In the spring of 2022, Sotheby's International Realty Québec broke the record for the highest recorded residential sale in the province of Québec with the private listing and sale of an extraordinary residential estate, representing a strengthening trend for ultra-luxury residences to be sold exclusively, off-market.

In the first half of 2022, it was Calgary that led Canada's major metropolitan markets in percentage sales gains across the $1 million-plus market. Strengthening local economic fundamentals, re-energized consumer and business confidence, and relatively affordable top-tier and luxury real estate prices attracted in-migration and investment from other Canadian markets. Overall, $1 million-plus residential sales saw a 40% year-over-year increase during this period, with five properties sold over $4 million where one had sold above this price point in the first half of 2021. Sales of single family homes, attached homes and condominium over $1 million posted annual gains of 36%, 85% and 89% respectively.

> **"The Canadian real estate market is winding down a prolonged era of extraordinary sales activity and price escalation that has been an economic anomaly in the history of the country. The frenetic pace of this extraordinary market was bound to rebalance," says Don Kottick, President and CEO of Sotheby's International Realty Canada. "In a normalizing market, it is very natural for buyers, sellers, and the market as a whole to undergo a period of hesitancy as all players watch for a new equilibrium, and this is exactly what we are seeing in the real estate market now. This hesitancy is not the same as lack of consumer demand or confidence in the housing market. In reality, there is an abundance of pent-up demand and a real need for conventional and luxury housing across every major Canadian market. Further, local and international confidence in the fundamentals of the Canadian housing market are strong. We have every expectation that as the market comes into balance, potential buyers and investors who have been discouraged by recent years' market conditions, will re-engage to purchase a property to meet their needs."**

According to Kottick, there is a growing divide between the behaviour of the ultra-luxury and luxury real estate market, and the market for conventional homes. With greater financial resilience to adapt to rising interest rates, prospective high-end buyers are actively assessing emerging strategic investment opportunities as the market adjusts and are more prepared to engage even as the market normalizes. Conventional home buyers and households confronting still historically high housing costs, now compounded by inflation, rising mortgage lending costs and concerns of a recession, may require more time to adapt budgets to the new reality.

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Vancouver

The City of Vancouver's luxury residential real estate market saw a stark contrast in sales activity between the first and second quarter of 2022. In the first quarter of the year, cresting post-pandemic housing demand, soaring consumer confidence, and a growing sense of urgency to capture historically low lending rates spurred hyper-sales activity, bidding wars and record high prices across the city.

This mood shifted sharply in March. Against a global backdrop shadowed by darkening geo-political conditions, Vancouver real estate buyers and sellers confronted steadily rising mortgage rates, record real estate prices, and surging living costs with increasing unease. Despite steady consumer and industry confidence in the city's long-term real estate market fundamentals, uncertainty over Vancouver's swiftly evolving market conditions resulted in the temporary retreat of buyers and sellers from the frontlines of the conventional and luxury housing market through the spring. Ultra-luxury and luxury buyers, despite greater financial resilience to rising interest rates, paused to assess emerging strategic opportunities; meanwhile, conventional home buyers and investors paused to reassess rising lending costs and the impact of inflation on carrying costs.

As the market rebalanced from 2021's historic highs, the first half of 2022 saw luxury residential real estate sales over $4 million (condominiums, attached and single family homes) fall 18% year-over-year to 203 properties sold. Ultra-luxury residential sales over $10 million, which had quadrupled year-over-year to a record 16 properties sold on MLS in the first half of 2021, saw nine properties sold in the first half of 2022, all single family homes. Overall, residential real estate sales over $1 million were down 18% year-over-year to 2,734 properties sold with 41% of these selling above list price. By the mid-year point, in a market that was swiftly coming into balance, luxury buyers were less likely to be compelled into bidding wars and subject-free offers, or to engage in offers on properties priced above immediate market conditions. Luxury home prices were seeing price adjustments in favour or buyers as the market calmed.

Following a frenzied first quarter of 2022 that pushed top-tier condominium prices and sales to record highs, Vancouver's condominium market normalized through the second quarter of 2022. In spite of this, luxury condominium sales activity over $4 million saw annual gains of 32% in the first half of 2022, with 25 units sold. There were no ultra-luxury condominium sales over $10 million recorded on MLS during this time, as was the case in the first half of 2021. Condominium sales over $1 million were up 20% year-over-year to 1,030 properties sold between January 1– June 30, just short of the 1,110 $1 million-plus single family homes sold during this time.

City of Vancouver luxury single family home sales experienced a more dramatic adjustment through the first half of 2022, coming into balance following a year that had seen sales over $4 million surge 172% year-over-year in 2021. Between January 1– June 30, 175 single family homes sold over $4 million, down 22% from the first half of 2021. Of these, nine ultra-luxury single family homes sold over $10 million on MLS, down from 16 sold in the first half of 2021. Overall, $1 million-plus single family home sales were down 36% year-over-year, with 1,110 homes sold in the first half of 2022.

The shortage of top-tier attached home supply in the city continued to limit activity despite demand for comparatively affordable alternatives to single family homes. In the first half of 2022, three attached homes sold over $4 million, down from five homes sold during the same period in 2021. Overall, attached home sales over $1 million declined 18% year-over-year to 594 properties sold in the first half of 2022.

As the Vancouver real estate market comes into balance following its prolonged and unprecedented pandemic sprint, Sotheby's International Realty Canada experts note that underlying local and international confidence in the city's conventional and luxury real estate market remains high, as does unsatiated consumer demand for housing. Vancouver continues to battle housing scarcity and affordability as a city now ranked as the fifth most livable city of 173 cities studied worldwide by the Economist Intelligence Unit Liveability Ranking. As one of the most coveted destinations to live in the world, the normalization of the Vancouver housing market is expected to bring a temporary cycle of relief in a city where the upward trajectory in housing values is steady in the long term.

Calgary

According to the Conference Board of Canada, Alberta is poised to lead the country in overall economic growth this year, at a forecasted growth rate of 6.6% in 2022,[1] while Calgary's real gross domestic product (GDP) is expected to rise 3.4%.[2] This year, the city also cemented its global reputation as one of the world's most desirable places to live with its 2022 ranking as the third most liveable city in the world, out of the 173 destinations studied by the Economist Intelligence Unit, sharing the position with Zurich. This positioned Calgary as the top-ranked city for Canada, surpassing Vancouver and Toronto on the top ten list of this esteemed Liveability Ranking. Buoyant business and consumer optimism and civic pride was reflected and further lifted during the city's annual Calgary Stampede.

Energized by strong optimism in Calgary's continued economic recovery and supported by a notable uptick in interprovincial migration and investment, particularly from Ontario, the city's conventional and luxury real estate market was active through the first half of 2022, posting strong sales gains. The City of Calgary led Canada's major metropolitan cities in percentage sales gains across the $1 million-plus residential market during this time, as overall activity rose 40% year-over-year to 863 residential properties (condominiums, attached and single family homes) sold over $1 million. 34% of $1 million-plus properties sold did so at above the list price. Of these properties sold, five did so over $4 million, compared to one property sold in this price range in the first half of 2021. Consistent with the year prior, no home sales were reported in the $10 million-plus price segment. According to Sotheby's International Realty Canada experts, areas that saw some of the strongest gains in sales over $1 million included City Centre, North West, West, South and South East. Dwindling inventory placed upward pressure in premier luxury neighbourhoods, leading to price gains up until the second quarter of the year.

Despite strong sales gains across the city's conventional and luxury market in the first half of the year, the seller's market conditions that supported price escalation and bidding wars in the initial months of 2022 began to ease through the second quarter, particularly for homes priced below $600,000, but also in the luxury market. By mid-year, the Calgary luxury market was recalibrating to a healthy, active, but more balanced market. Sales velocity moderated, multiple offer scenarios became less frequent, and prices stabilized in many neighbourhoods.

Overall, single family home sales comprised 90% of Calgary's $1 million-plus real estate transactions in the first half of 2022.

1 Conference Board of Canada, June 2022
2 Conference Board of Canada, Major City Insights, April 2022

Strong gains were posted in the luxury $4 million-plus market, with five single family homes sold in the first half of 2022 in comparison to no homes sold in this price range during the same period last year. Sales of single family homes over $1 million increased 36% year-over-year, with 774 homes sold from January 1– June 30.

Calgary's luxury attached home market flourished in the first half of the year, with sales over $1 million posting significant year-over-year gains of 85% to 72 homes sold and inventory remaining relatively tight in relation to demand. Of these homes sold, all did so in the $1–2 million price range. Consistent with years prior, there were no attached home sales reported over $2 million in the first half of 2022. Demand for top-tier attached homes was largely led by local buyers upsizing from condominiums, many motivated by the strengthening economy and real estate market to trade up while interest rates were still competitive.

Calgary's luxury condominium market also posted strong gains in the first half of the year and saw the healthiest sales numbers since 2014. Conventional and luxury condo demand was bolstered by the revitalization of the city's downtown core, diversification of the economy particularly in the technology sector, the addition of new corporate headquarters, and the attraction of professional talent from other parts of Canada. Overall, condominium sales over $1 million increased by 89% year-over-year in the first half of 2022, with 17 properties sold. While 13 of these sales were between $1–2 million, four were between $2 million–$4 million, where none had transacted in this price range in the same period in 2021. Consistent with the year prior, there were no sales over $4 million during this time. Calgary's luxury condominium market continues to be well-supplied and balanced market conditions are anticipated for this small but strengthening housing segment in the coming months.

Despite headwinds posed by rising interest rates, as well as geo-political instability abroad, the outlook for Calgary's local economy, and luxury real estate market is bright. Employment is forecast to grow by 5.1% in 2022,[3] according to the Conference Board of Canada, furthermore, the province of Alberta is expected to benefit from elevated oil prices given the continued invasion of Ukraine by Russia. With a growing profile as one of the world's most livable cities, Calgary's luxury real estate market is well-positioned as "one to watch" on the global stage.

3 Conference Board of Canada, June 2022

Greater Toronto Area (GTA)

The performance of the Greater Toronto Area's real estate market was an unprecedented economic anomaly from March 2020 to early 2022, as pandemic lifestyle changes propelled demand for conventional and luxury housing through one of the most significant surges in activity and prices in the region's history. Following this extraordinary era, the Greater Toronto Area (Durham, Halton, Peel, Toronto and York) real estate market normalized through the first half of 2022. While consumer confidence in the long-term fundamentals of the housing market remains resilient, near-term concerns posed by inflation, volatile financial markets, rising interest rates and global instability have tempered shorter-term consumer certainty and activity, particularly in the conventional market for properties under $4 million. In fact, according to Sotheby's International Realty Canada experts, the gap is widening between consumer sentiment in the market for homes below $4 million, where rising living and mortgage-carrying costs is evoking some near-term uncertainty, and the $4-milllion-plus market, where luxury consumers remain watchful, but are more ready and better able to pursue emerging opportunities for strategic investment.

In the first half of 2022, residential real estate sales over $4 million (condominiums, attached and single family homes) increased 7% year-over-year to 437 properties sold in the GTA, as bidding wars and price escalation tapered off, particularly in regions outside the City of Toronto. Ultra-luxury sales over $10 million on Multiple Listings Service (MLS) increased to 16 properties sold compared to 15 sold during this period in 2021. Overall, top-tier real estate sales over $1 million were down 10% year-over-year to 26,396 properties sold in the GTA between January 1– June 30, with 73% of these $1 million-plus sales taking place above list price.

With the desire for urban living rebounding post-pandemic, the City of Toronto's $4 million-plus luxury transactions increased a more significant 16% year-over-year to 268 properties sold in the first half of 2022. Seven properties sold over $10 million on MLS compared to eight units sold in this ultra-luxury price range during the same period of 2021. Sales over $1 million in the City of Toronto saw a modest 10% year-over-year decrease to 8,067 properties sold in the first half of 2022, with 71% of these selling above list price. Given evolving market trends and consumer uncertainty in the Greater Toronto Area's housing outlook in the short term, Sotheby's International Realty Canada experts have noted a shift in regional interest towards City of Toronto real estate, where some prospective buyers and investors perceive greater market resilience.

The GTA luxury condominium market saw robust gains as the demand for urban living rebounded post-pandemic. In the first half of 2022, annual percentage gains in GTA luxury condominium sales on the residential resale market surpassed that of the region's luxury single family home market, as condominium sales over $4 million increased 13% year-over-year to 17 units sold. There were no condominiums sold over $10 million during this time, compared to one unit sold in the first half of 2021. Overall condominium sales over $1 million were up 53% year-over-year to 2,465 units sold in the first half of 2022. Within the City of Toronto, condominium sales over $4 million increased a significant 31% year-over-year to 17 properties sold between January 1– June 30. As was the case in the first half of last year, no sales were yet recorded over $10 million. Overall, $1 million-plus condominium sales were up 26% year-over-year to 1,658 units sold in the City of Toronto. Sotheby's International Realty Canada experts noted that while consumer demand for luxury condominiums on the resale market remains healthy, pre-sale condominium inventory is captivating an increasing share of consumer attention, and the luxury market overall. As cosmopolitan, ultra-high-net-worth buyers continue to elevate their standards for high-end luxury condominiums, presale developments that offer generous floorplates, bespoke customization of residences, as well as international-standard ultra-luxury amenity and services such as 24/7 valet and concierge, personal trainers, massage therapists, private wine collections and sommeliers, and in-suite cleaning and grocery delivery, have become increasingly appealing.

Sales activity across the GTA's top-tier attached home market also remained healthy in the first half of 2022, as sales over $1 million increased 35% year-over-year to 6,225 properties sold. $4 million-plus attached home sales doubled to ten properties sold during this period, all in the City of Toronto, compared to the five units sold in the first half 2021. In the City of Toronto, $1 million-plus attached home sales were down a 15% overall to 1,809 homes sold between January 1– June 30.

Following an anomalous 2021 that saw GTA luxury single family home sales and prices surge to untenable highs, activity calmed over the course of the spring market, particularly in regions outside the City of Toronto. In the first half of 2022, GTA single family home sales over $4 million increased 6% year-over-year to 410 homes sold. Of these, 15 homes sold over $10 million on MLS, compared to 14 sold in this ultra-luxury prince range in the first half of 2021. Overall, $1 million-plus single family home sales saw a 23% decline to 17,706 units sold in the GTA between January 1–June 30. In the City of Toronto, luxury single family home sales over $4 million saw a more robust 13% year-over-year gain to 241 homes sold. Of these, seven ultra-luxury homes sold over $10 million on MLS compared to eight sold in the first half of 2021. $1 million-plus single family home sales in the City of Toronto were down 17% overall to 4,600 homes sold between January 1– June 30.

As the luxury market normalizes, Sotheby's International Realty Canada experts note that underlying local and international confidence in the enduring value of top-tier GTA real estate remains solid, and that local need for housing and housing mobility remains strong. Furthermore, despite risks, there is optimism in Ontario's economy, as the Conference Board of Canada has forecast GDP gains of 4% for the province in 2022, and 3.2% 2023.[4] While the current phase of consumer hesitancy is a natural product of a market that is rebalancing and entering its cyclical summer slowdown, the expectation is that activity will be restored once the market, and prices, have undergone their natural evolution to a more balanced market.

4 Conference Board of Canada, May 2022

Montréal

Easing COVID-19 public health restrictions, the revival of the province's economy and solid job gains supported underlying confidence in Montréal's economy, and its luxury market even as sales activity calmed from historic highs. According to the Conference Board of Canada, Montréal regained all the jobs it lost in 2020 by early 2022, and its GDP expected to increase 3.9% in 2022 with additional employment growth forecast.[5]

Despite confidence in the city's long term housing market fundamentals, the City of Montréal's heated luxury real estate market normalized through the first half of 2022, albeit to healthy levels of activity. Although the luxury market is more resilient in face of rising mortgage rates, fatigue from previous years' heated sellers' market, as well as evolving real estate and financial market conditions, prompted some buyers, sellers and investors to re-evaluate their strategic approach.

5 Conference Board of Canada, Major City Insights, April 2022

Between January 1 – June 30, Montréal's top-tier market saw 970 residential sales million (condominiums, attached and single family homes) over $1 million, nearly on par with the historic high sales activity seen in the first half of 2021 with a nominal 1% year-over-year shortfall. 39% of $1 million-plus residential sales took place above the list price. Luxury residential sales (condominiums, attached and single-family homes) above $4 million, increased 71% year-over-year, with 24 total homes sold in the first half of 2022. There were no ultra-luxury $10 million–plus property sales recorded on MLS in the first half of the year, compared to one sale in this price range during this time in 2021. Notably however, Sotheby's International Realty Québec broke the record for the highest recorded residential sale in the province of Québec with the private listing and sale of an extraordinary residential estate, representing a trend in the ultra-luxury market for properties to be sold exclusively, off-market.

Boosted by robust population growth in the city's downtown core, and the proliferation of new luxury condominium development in recent years, top-tier condominium sales saw the greatest percentage gains of the housing types, as sales over $1 million increased by 29% year-over-year to 269 properties sold in the first half of 2022. Of these sales, eight took place in the $4 million-plus price range, compared to only one home sold in this price range the year prior. There were no condominium sales in the ultra-luxury $10 million-plus price range on MLS during this time, compared to one sale in the first half of 2021.

Montréal's top-tier attached home market normalized as sales over $1 million decreased 10% year-over-year to 307 homes sold between January 1– June 30. Similarly, luxury $4 million-plus attached home sales saw a marginal uptick, with one home sold during this time, while none had sold during the same period in 2021. Consistent with the year prior, no sales took place in the ultra-luxury $10 million-plus attached home segment on MLS during this time.

Activity in Montréal's luxury single family home market normalized in the first half of the year, as sales over $1 million contracted 9% year-over-year to 394 homes sold. Sales of luxury $4 million-plus single family homes posted stronger annual gains of 15%, with 15 homes sold in the first half of 2022. Consistent with the year prior, there were no single family home sales reported in the $10 million–plus price range on MLS, however, a new record was set for the province by Sotheby's International Realty Québec in a private and exclusive transaction.

According to leading Sotheby's International Realty Canada experts, consumer confidence in the Montréal luxury real estate market is solid, even in light of balancing market conditions. Despite an anticipated and cyclical summer slowdown, the city's top-tier market is expected to resume healthy, normalized activity this fall.

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