

HOUSING MARKET INSIGHT

Thunder Bay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: December 2017

"Private sales accounted for one half of all sales in the Thunder Bay Census Metropolitan Area over the period of 2014 to mid-2017. The fraction of private sales was relatively stable over this period, indicating that private transactions have represented a significant part of the local housing market over this 3.5 year window."



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Private versus Public Sales: A Thunder Bay Case Study

Highlights

- Between 2014 and mid-2017, almost one out of every two residential home sales was private in the Thunder Bay Census Metropolitan Area (CMA)
- The majority of private sales in the Thunder Bay CMA took place in the City of Thunder Bay
- Prices for homes transacted publicly via the Multiple Listing Service® (MLS®) tended to be slightly higher than those transacted privately while the percentage growth in prices for public and private homes was comparable

This report examines the Thunder Bay housing market over a period of three and a half years beginning in January 2014 and ending in June 2017. The report focuses on determining the amount of private sales activity compared to MLS® sales activity during this time frame. In the process of doing this, we look closely at characteristics of private sales and MLS® activity, such as where they more frequently occur and in what price ranges. We also determine from the sample of activity whether price trends found in the private market vary considerably from those derived through MLS® sales analysis.

Introduction

The sample of transactions coming from the local MLS® system (public sales) is arguably incomplete, due to the absence of transactions that are not facilitated with the MLS® system (private sales). Incorporating private sales into analysis of the housing market may provide a broader view of resale activity which would, for instance, allow for a more accurate classification of market conditions. That said, quantifying the magnitude and scope of private sales relative to public sales in the Thunder Bay housing market is the subject of this report.

One out of every two sales was private

Private sales accounted for one half of all sales over the sample period of 2014 to mid-2017. The fraction of private sales was relatively stable over this period, indicating that private transactions have represented a significant part of the residential housing market in the Thunder Bay CMA over this 3.5 year window (see Figure 1). Industry sources report that private sales activity occurs primarily via web-based platforms such as Thunderbayhouses.com, Propertyguys.com and Kijiji.ca.

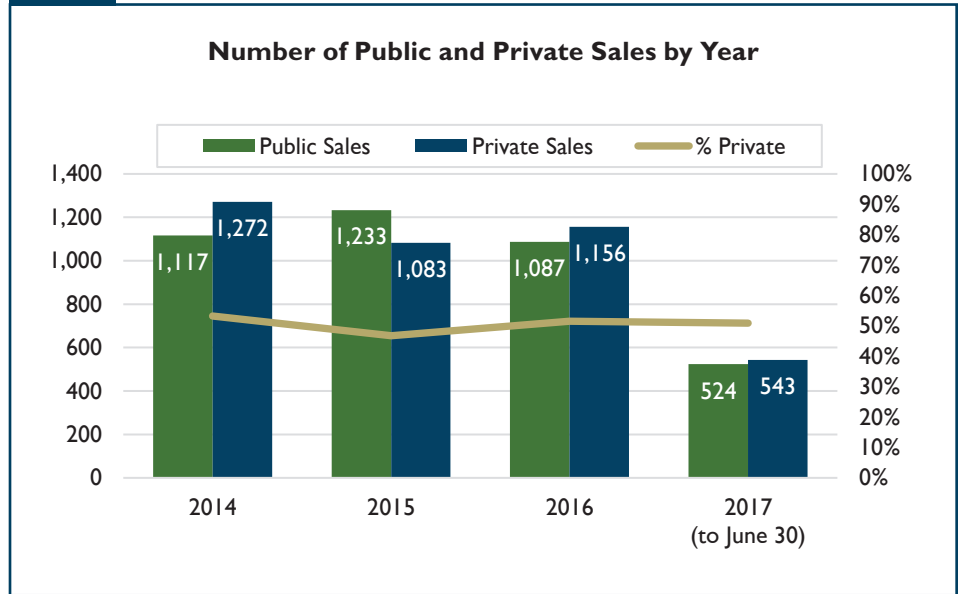
Majority of private sales occurred in the City of Thunder Bay

Private and public sales were grouped into the Thunder Bay Real Estate Board's divisions of Districts 1 and 2 to determine if there were any trends concerning the location of private sales. District 1 represents the City of Thunder Bay and District 2, titled Rural Thunder Bay, roughly encompasses the CMA's outlying municipalities and townships: Shuniah, Oliver, Paipooonge, Conmee, O'Connor, Gillies and Neebing. When combined, these two districts most closely approximate the borders of the Thunder Bay CMA. The overwhelming majority of private sales (80.1%) were concentrated in District 1, the urban area. The same held true for public sales (84.0%). Over the sample period, the proportion of private sales in the rural area decreased while it increased in the urban area.

Private sales were more likely to occur among lower priced homes

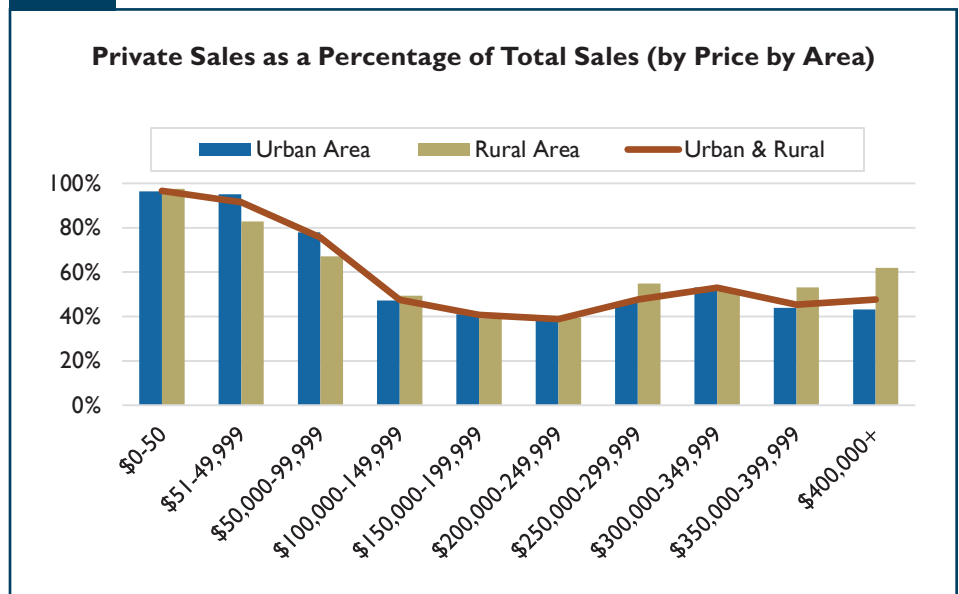
Almost one out of every four sales (or about 2,500 sales) in the sample period were transacted at a price of

Figure 1



Source: Teranet, Thunder Bay Real Estate Board

Figure 2



Source: Teranet, Thunder Bay Real Estate Board

\$0 to \$50 dollars. The vast majority of these were private sales and likely non-arm's length transactions. For this reason, sales priced in this range were not included in our count of private sales in Figure 1 and do not factor into the analysis for the rest of this report. Sales in the \$200,000 to \$249,999 price band had the

lowest percentage of private sales at 38.8% of all transactions while sales priced below \$49,999 (excluding sales between \$0 and \$50) had the highest percentage of private sales at 91.4% (see Figure 2).

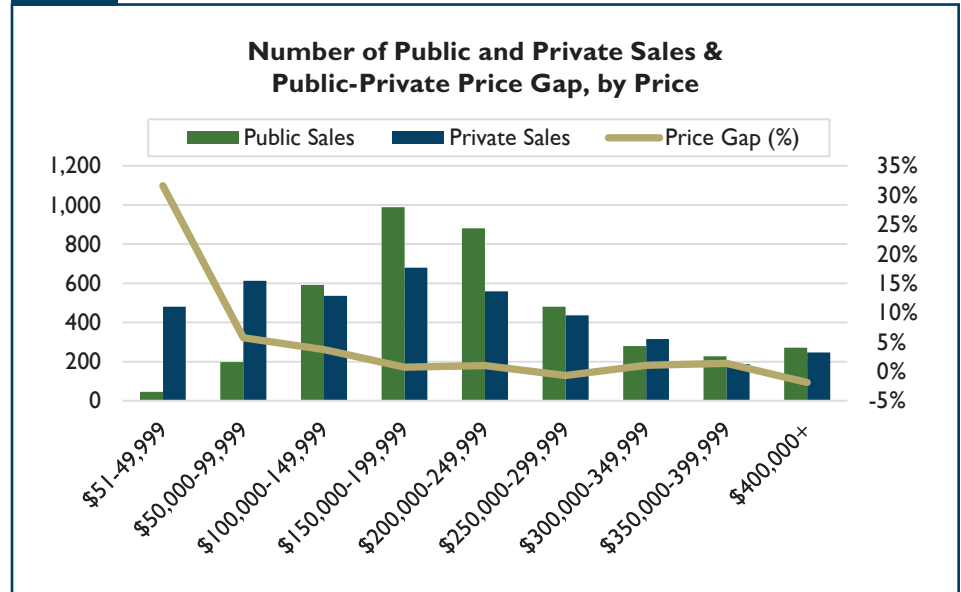
Prices for homes sold publically were slightly higher than those transacted privately

Aside from describing the number, location and price of private sales, the analysis of private transactions is important to determine whether the prices for public sales are representative of all sales in the market. Our calculations address this concern and show that average public prices tended to be slightly higher than average private prices across most price bands. Excluding the range of \$51 to \$49,999 which had a relatively small sample of public sales, public prices ranged between 0.7 and 5.7% higher across most price bands (see Figure 3). There were two price bands where the average private sales price surpassed the average public price; \$250,000 to \$299,999 and \$400,000+.

The costs associated with using a realtor may explain, in part, why homes sold publically tended to be higher priced. Despite the additional cost, the realtor's ability to command a higher selling price was advantageous to the seller in certain price bands (assuming a 5% rate of commission). Conversely, in other price bands, selling privately yielded more to the seller which is consistent with anecdotal evidence suggesting that those who opt to sell privately do so in order to circumvent the fees associated with using a realtor.

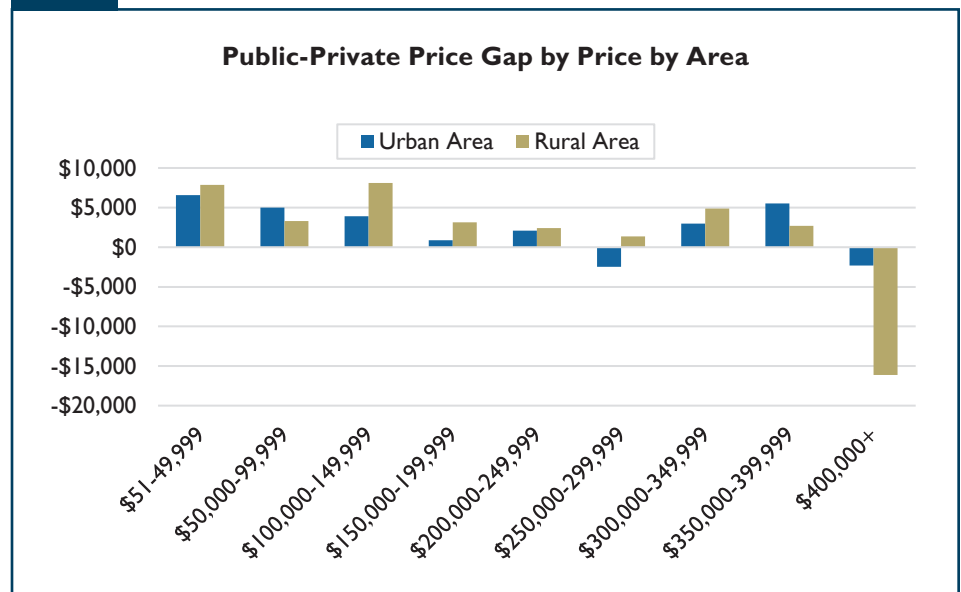
Breaking the public-private price gap down according to urban-rural geography provides insight as to where in the CMA private prices were outstripping public prices (see Figure 4). Average private prices slightly exceeded public prices in the urban area for the \$250,000 to \$299,999 and \$400,000+ bands.

Figure 3



Source: Teranet, Thunder Bay Real Estate Board

Figure 4



Source: Teranet, Thunder Bay Real Estate Board

The price gap in the rural area for the \$400,000+ band was pronounced with private prices exceeding public prices by \$16,144 (or 3.2%). This was due to a larger number of high priced (i.e. \$400,000+) private sales in this

area; 78 compared to 48. Moreover, of the 78 transacted privately, 8 were priced over \$800,000, while this was only the case for 1 of the 48 transacted publically.

Growth in prices for private and public homes was comparable

Despite the differences in prices noted above, a correlation test between price growth for public and private homes revealed a very strong positive relationship (on a quarterly, seasonally adjusted basis). In other words, private and public sales prices generally grew or fell together throughout the sample period. This result is notable as price growth is largely dictated by the balance of demand and supply in the housing market². It is therefore conceivable that market conditions were mostly similar for both the private and public segments of the housing market, at least during the sample period observed in this study.

Methodology

Teranet (TNET) data was the source of information for private sales in Thunder Bay. Worth noting is that TNET data draws on information for properties in the broad Thunder Bay District which represents a much larger area than the Thunder Bay CMA. For this reason, we excluded any TNET records that were deemed to be outside the bounds of the CMA. MLS® data was sourced from Districts 1 and 2 of the Thunder Bay Real Estate Board (TBREB) territory. This has traditionally been the area that the CMHC Market Analysis department and the TBREB has agreed upon as the representative territory of the Thunder Bay housing market.

After settling on the geographic boundaries of the CMA for our data, we continued to refine the two datasets both of which contained records between January 2014 and

June 2017 (records are defined as land transfers in the case of the TNET dataset and sales in the case of the MLS® dataset). Non-residential records were excluded from both datasets as they did not meet the scope of this study. Following their removal, MLS® sales were matched with TNET land transfers. Records were matched according to two criteria: Property Identification Number (PIN) and whether or not the TNET registration date was within plus or minus 30 days of the MLS® closing date. Including the latter criteria ensured that records sharing the same PIN represented a unique transaction. The end result of matching was a single, merged dataset that allowed us to distinguish private from public sales. A relatively small number of MLS® records did not find a matched observation in Teranet, which could lead us to slightly underestimate the proportion of MLS® transactions.

ENDNOTES

- ¹ MLS® is a registered trademark of the Canadian Real Estate Association.
- ² The sales-to-new-listings ratio is typically used as a measure of demand-supply balance, however, there was no way to ascertain the number of listings for private sales.

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