CANADA'S HOUSING MARKET

May 3, 2018

Drop in supply restrained sales in the GTA market in April; Vancouver market stabilizes

The new stress test clearly was still a factor in the Toronto and Vancouver areas in April. Activity was weak in both markets last month—down by 32.1% in Toronto and by 27.4% in Vancouver relative to a year ago according to statistics released today and yesterday by the local real estate boards. We thought that we might see an early-stage pick-up marking an end to the payback for sales pulled forward into late last year but there was little evidence of this in the numbers. In Toronto, the weakness in April in part reflected a significant drop in homes listed for sale during the month (down 24.6% from a year ago). Would-be sellers still might feel uncertain about the state of the market at this stage and held off putting their properties on the market. In our view, this delayed rather than thwarted the usual spring-season ramp-up. We continue to expect activity to partly recover in the coming months as it becomes increasingly apparent that the market isn't caving under the weight of the stress test. In Vancouver, activity may be weak but at least it didn't weaken further in April. Our back-of-the-envelope calculations suggests that home resales stabilized on a seasonally-adjusted basis last month. Both Toronto and Vancouver continue to be balanced markets at this stage.

Price-wise, developments last month should please policy-makers. Toronto's aggregate benchmark price fell below year-ago levels (which constituted all-time highs in the area) for the second-straight month by 5.2%—providing some much needed affordability relief. Single-detached prices (down 10.3% year-over-year) contrasted starkly with condo prices (up 10.2%). On a year-over-year basis,

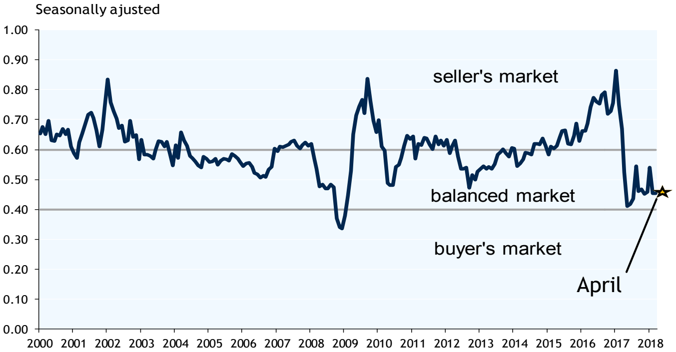
Toronto-area home resales

Thousand units, seasonally ajusted

Source: CREA, RBC Economics Research

Toronto-area sales-to-new listings ratio

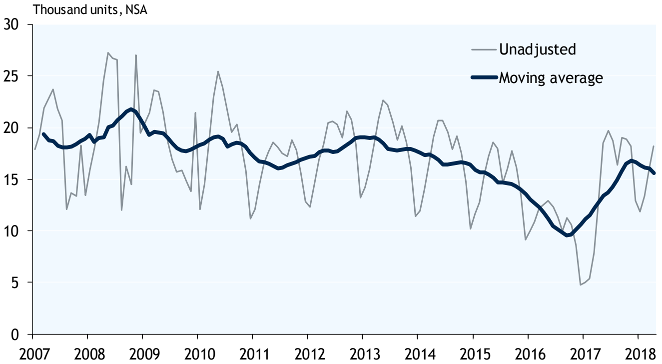
Seasonally ajusted



Source: CREA, RBC Economic Research

Active listings - Toronto area

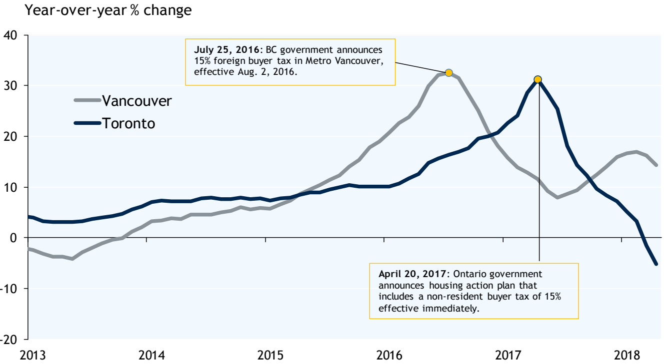
Thousand units, NSA



Source: Toronto Real Estate Board, RBC Economic Research

MLS Home Price Index

Year-over-year % change



Source: CREA, TREB, REBGV, RBC Economic Research

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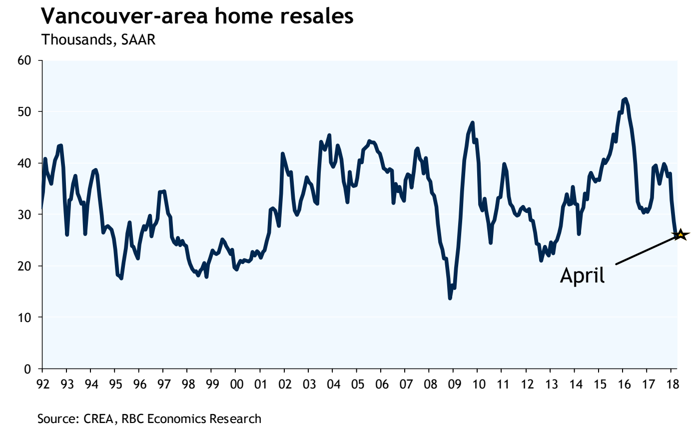

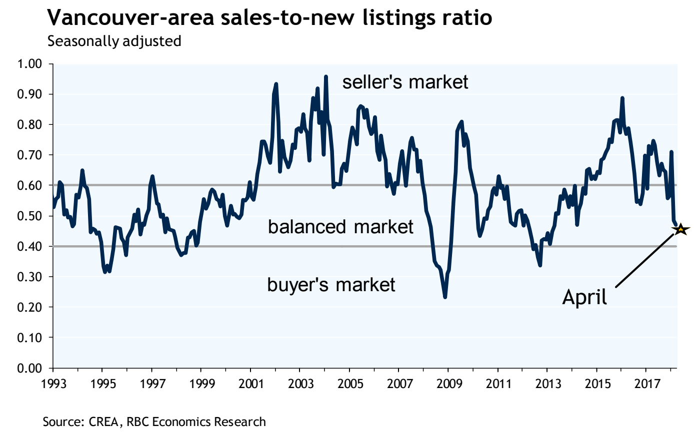

the drop in the aggregate price virtually matched the decline recorded during the 2008-09 recession. We're close to the bottom, though. In fact, the level bottomed three months ago. It will take another month or two before the year-over-year comparisons begin to show it.

Policy-makers will also be encouraged to see that the annual rate of benchmark price increases has slowed in the past two months in the Vancouver area. In April, that rate eased back below 15% for the first time since November last year. The deceleration isn't doing much yet to improve affordability in the area but it will be considered a sign that the market might be changing course away from overheating. The suite of market-cooling measures announced in the 2018 BC budget is poised to keep prices on this decelerating path over the coming months.