CANADA'S HOUSING MARKET

September 6, 2018

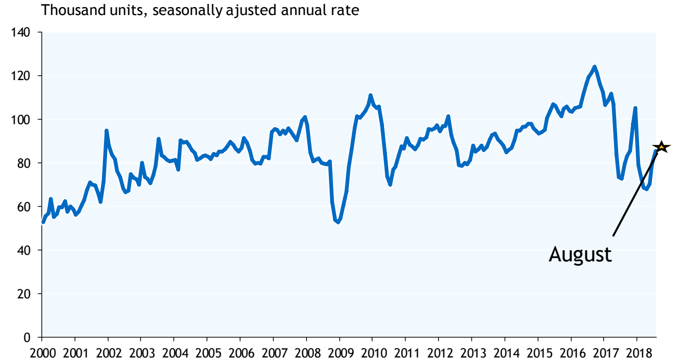
Modest price gains in Toronto and Vancouver in August a sign of things to come

It's official: the Toronto benchmark price is no longer falling on a year-over-year basis. It returned to positive territory in August—more or less on cue—marking an end to a correction that lasted five months according to statistics released this morning by the Toronto Real Estate Board. Area buyers hoping that last year's Fair Housing Plan and this year's stress test would bring about big price breaks will be disappointed. In fact, several of them came to that realization earlier this summer (in light of steady month-to-month increases over the spring) and jumped back into the market. Greater Toronto Area resales jumped 22% cumulatively in June and July (on a seasonally-adjusted basis) from decade-low levels. Activity rose further month-over-month in August though the pace moderated significantly to just 2% according to TREB's preliminary estimate. This is in line with our view that rising interest rates, the stress test and affordability issues will drain away the market's momentum in the period ahead. It will leave little room for prices to move higher either. We think that low single-digit (year-over-year) increases will be the norm for a while. We see little that would disrupt the current balance between demand and supply in the market.

Vancouver prices also are converging toward low single-digit year-over-year increases. In a report released yesterday, the Real Estate Board of Greater Vancouver said that the area's benchmark price was up only 4.1% from a year ago in August, marking the slow-

Toronto-area home resales

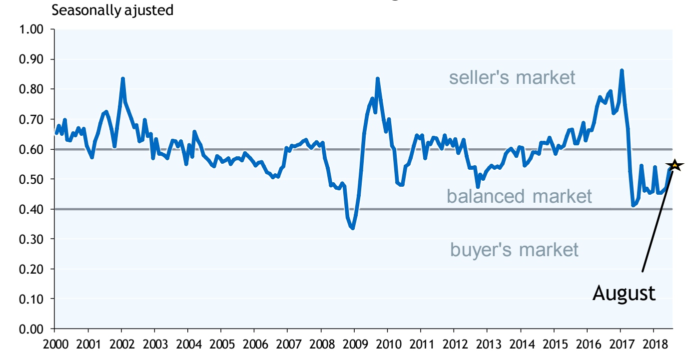
Thousand units, seasonally ajusted annual rate



Source: CREA, RBC Economics Research

Toronto-area sales-to-new listings ratio

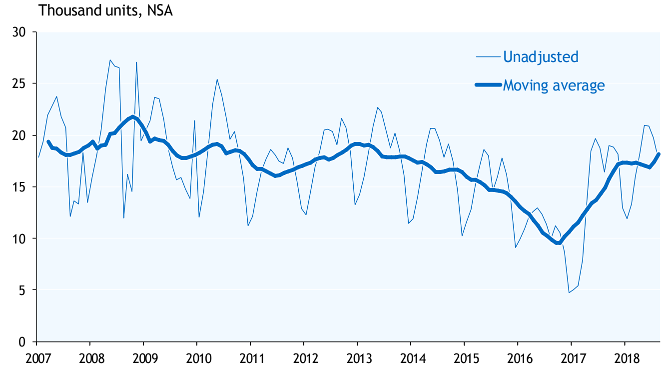
Seasonally ajusted



Source: CREA, RBC Economic Research

Active listings: Toronto area

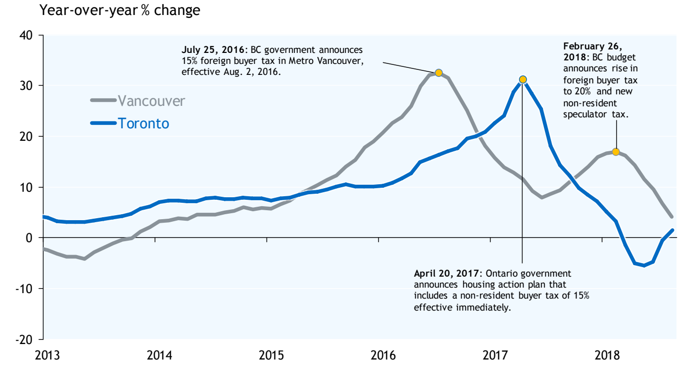
Thousand units, NSA



Source: Toronto Real Estate Board, RBC Economic Research

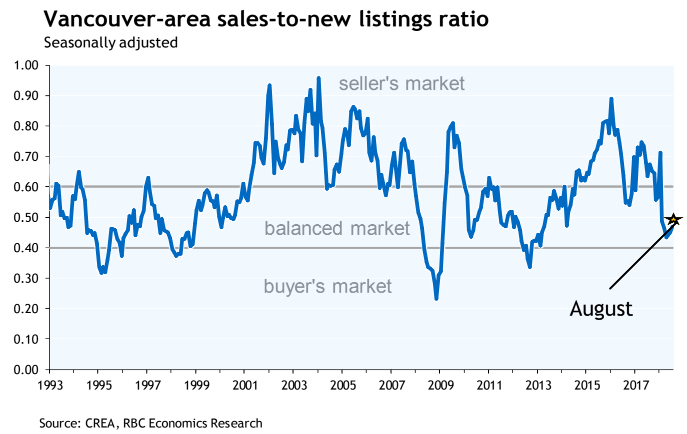
MLS Home Price Index

Year-over-year % change



Source: CREA, TREB, REBGV, RBC Economic Research

Robert Hogue
Senior Economist | 416-974-6192 | robert.hogue@rbc.com



est rate of increase in more than four years. The Board noted that the benchmark actually decreased 1.9% since May 2018. The market continues to be under heavy pressure at this point as it wrestles with recently implemented provincial measures designed to cool things down as well as higher interest rates, the stress test and severe affordability issues. Home resales definitely were soft again in August—they were 25% below the 10-year average for the month. But the good news is that things didn't get any softer. By our rough calculations, August activity was about flat compared to July on a seasonally-adjusted basis. And July resales were down just marginally from June. These could be tentative signs that a bottom is near. Recent declines in new listings meanwhile have kept demand and supply in balance and we expect this will continue to be the case in the period ahead, which will reduce the risk of prices spiraling down.