



CANADA'S HOUSING MARKET

March 6, 2018

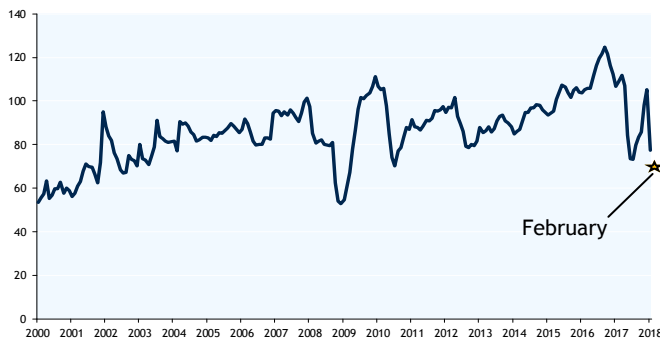
New stress test really testing local housing markets in Canada in February

The notion that the new stress test for uninsured mortgages would slow down Canada's housing market is getting more and more currency. After a sharp drop in January, home resale activity was weak again in February. And not just in Toronto and Vancouver. Statistics released by local real estate boards in the past few days suggest that it was a cross-Canada affair just like in January. Calgary sales plunged 18% from a year ago. Ditto in Victoria where the drop was 19%. Ottawa—which has been on a significant upswing during 2017—saw sales decline by more than 2%. Montreal recorded a 5% year-over-year gain in February but this constituted a sharp moderation from a 13% rise in January. It implies a second-straight month-to-month decline on a seasonally-adjusted basis. In most cases, price trends remain intact although there's likely been some erosion in sellers' bargaining position at the margin.

As for Toronto and Vancouver, things got really quiet in February. The Toronto Real Estate Board this morning reported that resales in the area plummeted by nearly 35% relative to a year ago. According to our rough calculations, this will translate into an eight-year low on a seasonally-adjusted basis. The benchmark price further decelerated to an annual rate of increase of 3.2%—the slowest in nearly five years. In Vancouver, statistics released Friday showed that home resales fell 9% year-over-year in February. We estimate that this corresponds to a second-straight double-digit monthly decline on a seasonally-adjusted basis. Yet prices remained under upward pressure because demand-supply conditions continued to be quite tight despite easing in the month. Vancouver-area's benchmark

Toronto-area home resales

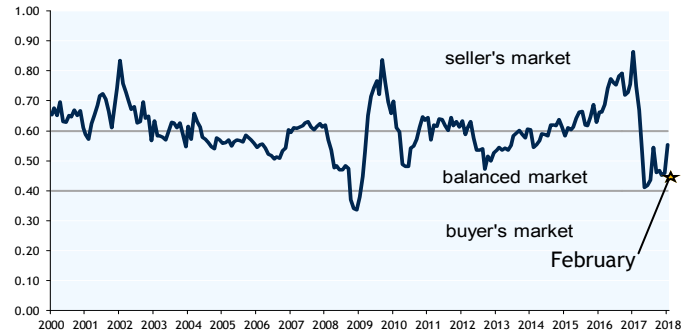
Thousand units, seasonally adjusted



Source: CREA, RBC Economics Research

Toronto-area sales-to-new listings ratio

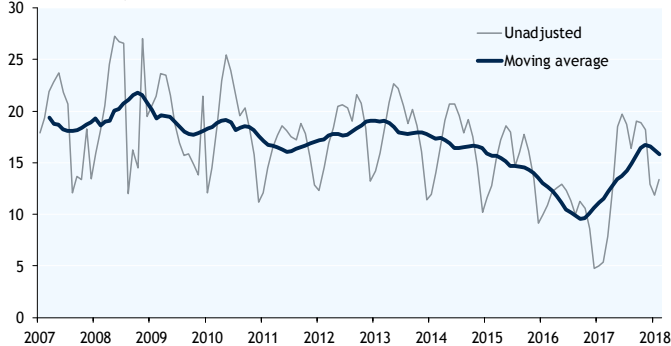
Seasonally adjusted



Source: CREA, RBC Economic Research

Active listings - Toronto area

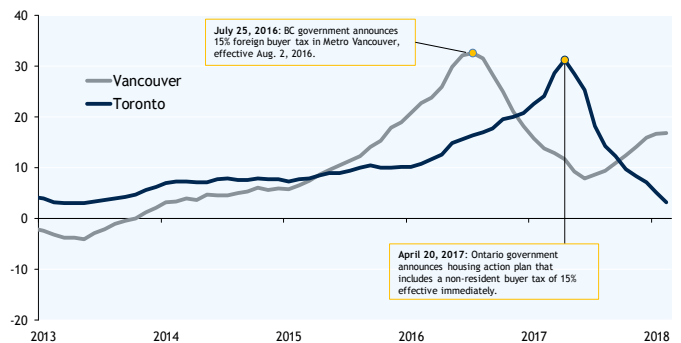
Thousand units, NSA



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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Vancouver-area home resales

Thousands, SAAR



Source: CREA, RBC Economics Research

Vancouver-area sales-to-new listings ratio

Seasonally adjusted



Source: CREA, RBC Economics Research

price accelerated further to a rate of 16.9% from 16.6% in January. The condo segment continues to fare better—activity-wise and price-wise—than the pricier single-detached segment in both Toronto and Vancouver.

It's worth noting that sellers warmed up to the market. New listings rose in February in both Toronto and Vancouver after declining markedly in January. This could be an early sign of a pick-up in move-up buyer activity in the coming months.

Our view is that the more stringent qualifying rules for uninsured mortgages that came into effect on January 1 had a significant impact on home resale activity across Canada over the past few months. We believe that it brought forward many buying and selling decisions toward the latter stages of 2017, and caused others to adopt a wait-and-see approach in the early stages of 2018. We expect the effects of the new rule to ease gradually in the coming months and activity to recover partially.

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