



MONTHLY HOUSING MARKET UPDATE

December 14, 2017

Canadian homebuyers hurried to make deals in November ahead of impending mortgage rule change

- Home resales in Canada rose at their fastest rate between October and November in nine months.
- A surge in Toronto accounted for most of the increase. Activity fell modestly in Vancouver for a second-straight month.
- More stringent mortgage lending rules coming into effect in January no doubt prompted many buyers to advance their purchasing decisions.
- Sellers were motivated as well in November. New listings rose in tandem with sales—again, led by a sharp increase in the Toronto-area market.
- Overall price pressures eased for a seventh-consecutive month in Canada, primarily reflecting a higher inventory of homes for sale in Toronto.
- We see limited downside risks to prices in the near term in Canada because the majority of local markets—including Toronto—are in balance.
- We expect some market volatility over the next few months as the new mortgage rules are implemented. Our outlook for 2018 calls for further moderation in home resale activity and prices increases in Canada.

Mortgage rule changes provided plenty of motivation for buyers...

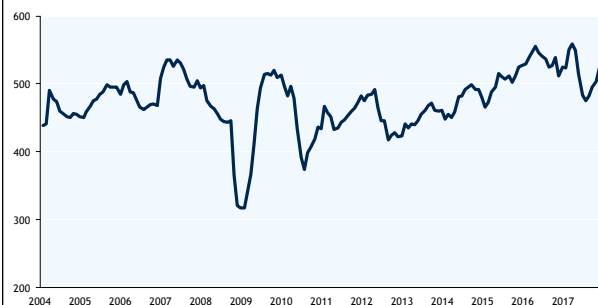
November housing market statistics released this morning by the Canadian Real Estate Association were generally consistent with our view that the upcoming tightening of rules for uninsured mortgages will boost near-term activity. We expect many buyers to bring forward their purchasing decisions to qualify under the existing rules before changes take effect on January 1, 2018. Resales rose by 3.9% in Canada between October and November. This was the strongest monthly advance since February. Much of the strength was concentrated in the Toronto area where activity surged by 16.0%. Victoria, Ottawa and Regina also recorded strong gains, while Calgary, Edmonton and Montreal posted modest increases. Not all markets participated in the rally, though. Vancouver was among the few holdouts. Resales fell for a second-straight month by 3.7% in the Vancouver area where affordability strains represent a major issue for buyers.

...and sellers

Many sellers also concluded that it made sense to list their properties ahead of the mortgage rule changes. New listings rose by 3.5% in Canada between October and November. Most of this increase took place in the Toronto area where new listings jumped by 22.9%. A report released earlier this month by the Toronto Real Estate Board showed that active listings in Toronto rose modestly above their 10-year average in recent months after plunging to historical lows at the start of 2017. Clearly, pressure has come off Toronto-area buyers as they are now presented with more options. This could soon be the case in Vancouver too. New listings rose sharply in November and, with resales declining back-to-back in the past couple of months, the sales-to-new listings ratio is finally moving toward more balanced conditions. Sellers have had the upper hand in setting prices

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

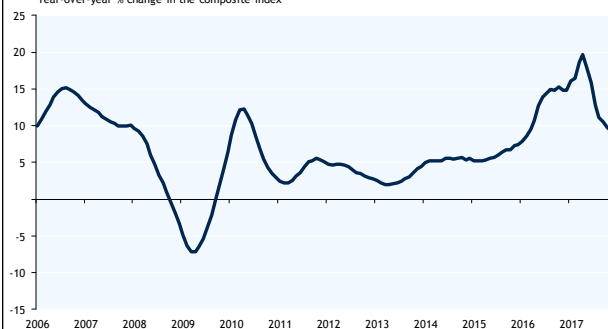
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Robert Hogue

Senior Economist

(416) 974-6192

robert.hogue@rbc.com

November snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	2.6	9.7	9.3	0.56
Toronto	-13.7	36.4	8.4	0.43
Montreal	11.3	-2.4	5.6	0.65
Vancouver	25.5	31.0	14.0	0.60
Calgary	14.3	6.4	0.3	0.55

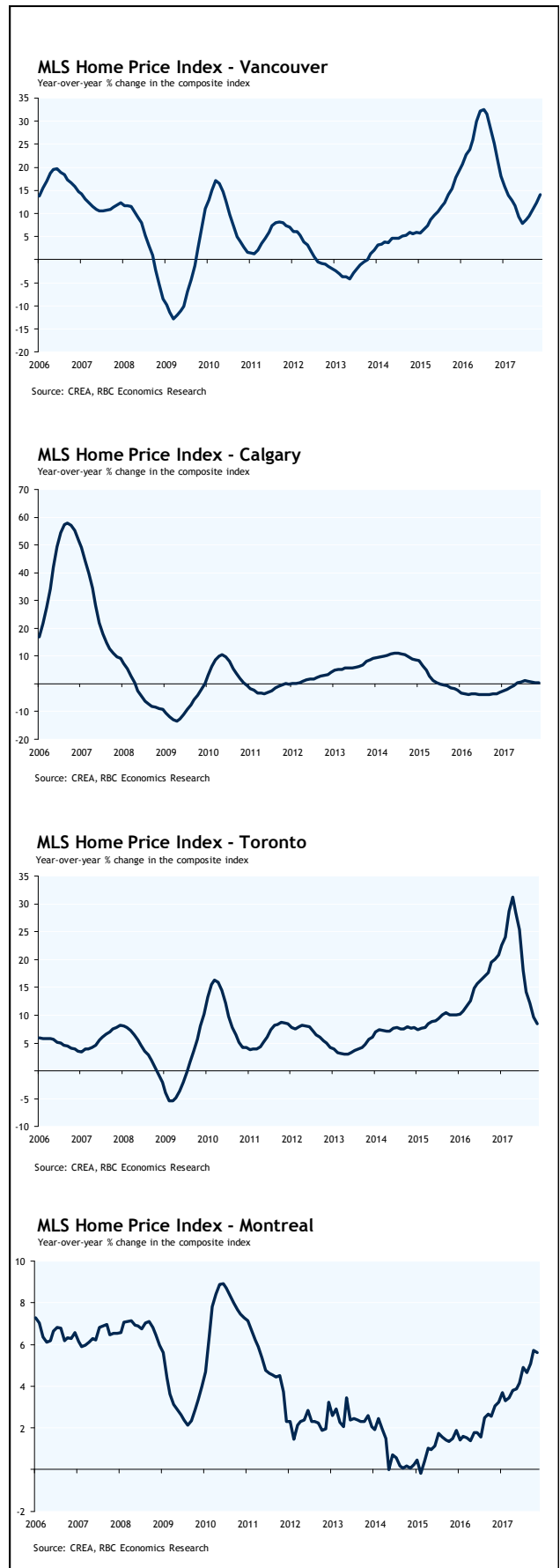
through the better part of 2017. And this put renewed upward pressure on prices.

Montreal and Ottawa are heating up

Elsewhere in Canada, we note that demand-supply conditions continue to tighten in Montreal and Ottawa. Fueled by healthy regional economies, homebuyer demand has been solid in the past year and resales picked up smartly. Earlier excess condo supplies have been largely absorbed. Prices are accelerating in both markets though with year-over-year rates of 5.6% for Montreal and 6.7% for Ottawa in November they remain well under control.

Near-term volatility followed by generalized softening in 2018

It likely will be difficult to discern the underlying market trends over the next few months. We expect market activity to be more volatile than usual as buyers and sellers strategize over the impact of the new mortgage rules. When the dust settles—which could be as late as in the spring—however, we believe that the combination of tighter mortgage rules, rising interest rates and poor affordability in several key markets will weigh on homebuyer demand in Canada. Our forecast calls for home resales to decline by 4.2% to 488,000 units in 2018 following a 4.8% drop in 2017. It also calls for a sharp deceleration of prices from 11.1% in 2017 to just 2.2% in 2018 nationwide.



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