MONTHLY HOUSING MARKET UPDATE

October 13, 2017

Canada’s housing market activity inched higher in October; price pressures continue to ease

- Today’s statistics provided more evidence that Canada’s housing market isn’t falling apart.
- Home resales rose modestly for the second-straight month in September, led by gains in Vancouver and Toronto.
- A strong increase in new listings tempered demand-supply conditions slightly—but conditions remained balanced overall.
- Price appreciation continued to moderate on a year-over-year basis.
- In Toronto, there was positive news for both sellers and buyers. Resales advanced for a second-consecutive month and new listings surged. Prices remained under downward pressure although this pressure is now easing.
- Developments in Vancouver favoured sellers. A sharp increase in resales tightened the market further, providing more fuel for prices to accelerate.
- September market results are generally consistent with our view that Canada’s housing market is adjusting constructively to policy actions taken in the past year. We expect further cooling to take place next year in the face of rising interest rates and poor affordability in certain regions.

September offered what we wanted to see

Two months may not make a trend but give a strong indication that Canada’s housing market isn’t caught in a downward spiral. Statistics published by the Canadian Real Estate Association (CREA) this morning showed that home resales rose for a second-straight month by 2.1% in Canada in September on a seasonally-adjusted basis. This increase provides early evidence that the four-month slide that occurred between April and July has run its course. At the same time, it signals that the ongoing moderation in prices—a positive development—will remain under control. In short, both are pretty much what we were hoping to see: signs of market stability and further price relief.

Good news for both sellers and buyers in Toronto

Of course, developments at the national level primarily reflect what’s been happening in the Toronto-area market. We’re encouraged to see that the 44% plunge in resales in Toronto between April and July has been partly reversed by an 18% rebound over August and September. We view this as a sign that the market has largely adjusted to Ontario’s Fair Housing Plan implemented in April, and that the earlier 44% slide was somewhat of an overshoot. In our view, both sellers and buyers got encouraging news in September. Sellers saw more buyers returning to the market motivated to pull the trigger on a transaction. And buyers were presented with more buying options—new listings surged by almost 19% from August—and saw the benchmark price fall for a fourth-straight time on a month-over-month basis. The window for price moderation may be closing soon, though, because demand-supply conditions are balanced and the rate of price decline has slowed significantly in the past two months.

Robert Hogue
Senior Economist
(416) 974-6192
robert.hogue@rbc.com
The Vancouver-area market heats up again
After stalling earlier this summer, activity recovered further in the Vancouver area in August and September. The 6.1% gain in September, in fact, was the strongest among Canada’s larger markets. It exceeded an otherwise solid increase in new listings, which tightened up demand-supply conditions—already favouring sellers since winter. This added more upward pressure on prices. Vancouver’s benchmark price accelerated to 10.9% year-over-year in September from 9.4% in August. Given the current market tightness, we expect further acceleration in the months to come.

Calgary coming out of its mid-year soft patch
Calgary’s housing market hit a soft patch earlier this summer but appeared to be back on a recovery track in the past couple of months. Home resales rose for a second consecutive month by 2.8% in September. While confidence in the market is slowly returning, high condo inventories remain a significant issue in Calgary. These keep condo prices on a declining trend and could even be a factor tempering gains in single-detached prices. Calgary’s overall benchmark price continued to rise year-over-year in September but the 0.6% rate was minimal. There’s little scope of stronger appreciation until those inventories are cleared.

Outlook: soft landing to continue in 2018
Our view is that we’re still in the early phase of an extended cooling process for Canada’s housing market. We expect that rising interest rates will drive the next phase in 2018. Our forecast calls for home resales to decline by 4.2% to 488,000 units in 2018 following a 4.8% drop in 2017. Despite generally softening activity, we expect demand-supply conditions to be balanced in the majority of local markets next year. This would maintain some degree of support for prices albeit considerably less than what the super-tight conditions provided in the early stages of 2017. We project a sharp deceleration of prices from 11.1% in 2017 to just 2.2% in 2018 nationwide. See our latest Canadian Housing Market Forecast report for more detailed discussion of our housing outlook.