MONTHLY HOUSING MARKET UPDATE
January 15, 2018

End-of-year stampede: Canadian homebuyers rushed in the market before new mortgage rule kicked in

- Home resales in Canada surged to a new record high in December on a seasonally adjusted basis.
- It’s likely that many buyers rushed to get deals done before more stringent mortgage lending rules came into effect on January 1st.
- The month-over-month gain was broadly based across the country. The Fraser Valley, Edmonton, Calgary, Winnipeg, Hamilton, Toronto and Saint John led the way with outsized sales increases.
- Overall price pressures eased for an eighth-consecutive month in Canada, although this mostly reflected developments in the Toronto area. Prices accelerated in BC markets.
- We expect resale activity in Canada to slow down in the near term as payback for transactions that were brought forward ahead of the new mortgage rule. Our outlook for 2018 calls for a second-consecutive modest annual decline in resale and sharp moderation in price appreciation.

Resales back in record territory...
It wasn’t really a surprise to learn from today’s report by the Canadian Real Estate Association (CREA) that Canada’s home resale market strengthened further in December. Resales surged by 4.5% month over month on the heels of a 4.4% increase in November. The majority of local markets recorded an increase. We expected a strong finish to 2017 ahead of changes to mortgage rules that came into effect on January 1st. Still, the fact that home resales set a new record high in December ($51,700 units on a seasonally-adjusted, annualized basis) made us pause. What if the market is taking flight again? While underlying sales momentum may be a little stronger than we believed previously, several elements will keep the market in soft landing mode in 2018. First, the more stringent qualifying rules for uninsured mortgages will raise the ownership bar significantly for many buyers. These changes may prompt some buyers to delay their buying decision. In the near term, we expect some payback for the rush to get deals done in November and December before the new rules took effect. Second, mortgage rates are on the rise and further increases are in the cards. We expect the Bank of Canada to double its overnight rate to 2.00% by the end of 2018 with long-term rates rising in tandem. This will raise the ownership bar even higher at a time when affordability is already stretched in some of Canada’s major markets.

...but there are more sellers in the market now
Third, we expect the majority of markets across Canada to remain balanced. In December, the sales-to-new listings ratio barely budged—it edged higher to 0.58 from 0.57 in November—despite resales surging by 4.5%. That’s because there were more sellers in the market. New listings rose solidly by 3.3% from November and 12.6% from a year ago. Healthy levels of properties available for sale will limit the rate of price increases significantly in 2018. Ultimately, we believe that the lack of prospects for large scale price appreciation will dampen demand from...
speculators in markets such as the Toronto area.

**Prices continue to ease in Toronto, especially for detached homes**
One of the more revealing developments occurring in the Toronto-area market since April has been the shift in demand away from higher-prices housing segments such as single-detached toward lower-priced condos. This continued to be the case in December. Stronger relative demand for condos kept the annual rate of price increase brisk at 21.8% whereas it fell to just 2.7% for single-detached homes. Overall, the aggregate benchmark price moderated further to 7.2% in December from 8.4% in November and a peak of 31.6% in April. Demand-supply conditions remained balanced with the sales-to-new listings ratio rising marginally from 0.45 in November to 0.46 in December—still within the 0.40 to 0.60 range typically associated with balance. Both home resales and new listings increased strongly on a seasonally-adjusted basis in December relative to November. The moderation in aggregate price increases in the Toronto area was the main factor contributing to rate of increase in Canada’s benchmark easing further to 9.2% December from 9.3% in November.

**Accelerating prices in Vancouver raise concern**
In the Vancouver area, prices are accelerating in all market segments—although more rapidly so for condos. Overall, the area’s aggregate benchmark quickened its annual pace for the sixth-straight month in December to 15.7% from a low of 7.9% in June. This trend raises concerns about further sharp deterioration in affordability. Yet a return to balanced demand-supply conditions in the past two months may bring about some easing in price appreciation in the near term.

**Sharp sales gains in Edmonton and Calgary**
Today’s CREA report brought encouraging news about Alberta. Home resales rocketed to a 10-year high in Edmonton and climbed in Calgary to their strongest level since mid-2015. Gains exceeded supply, which tightened demand-supply conditions. If sustained, we could see some upward price pressure building in the near term in the province.

**Activity in Montreal and Ottawa still tracking higher**
The housing market story continues to be positive in Montreal and Ottawa. Home resales continued to trend higher in December and demand-supply conditions remained fairly tight—sales-to-new listings ratios signaled an advantage to sellers in both markets. Upward price pressures gradually intensified since the middle of 2016 but are still manageable. Montreal’s benchmark price was up by 5.4% year over year in December, and Ottawa’s by 6.6%.

**Strong finish to 2017 unlikely to last**
The ride could get bumpy in the coming months as the market adjusts to the new mortgage rule and higher interest rates. We expect to see the unwinding of part of the demand strength in November and December. On the whole, we believe that downward forces will dominate in the home resale market in Canada in 2018—keeping activity on a soft landing course and restraining price increases substantially. Our outlook calls for home resales to ease from 514,400 units in 2017 to 500,300 units in 2018 in Canada. This represents a slight upward revision from our earlier forecast of 488,000 units to factor in recent gains in Canada’s job market. Our outlook also calls for a sharp price deceleration from 11.1% in 2017 to just 2.3% in 2018 nationwide. This is virtually unchanged from our previous forecast.