

## MONTHLY HOUSING MARKET UPDATE

June 15, 2017

### Could May be a turning point for Canada's housing market?

- Home resales in Canada fell by 6.2% in May, driven by a sharp 25% decline in the Toronto area.
- The moderation in resale activity brought the national market back into balance after 15 months as a seller's market.
- The number of properties put up for sale was little changed in Canada last month, following strong increases in the previous three months.
- The annual rate of price increase slowed down to 17.9% for the first time since November last year.
- Market sentiment has shifted significantly in Toronto in the past couple of months. The earlier euphoria is gone and more guarded attitudes have set in. This is consistent with our view that housing market activity will be weaker this year compared to 2016.

#### Southern Ontario plot thickens: resales plummet in the GTA...

Reaction to Ontario's Fair Housing Plan has been swift and dramatic. After initiating their exit in April, Toronto homebuyers rushed *en masse* to the sidelines in May. This morning's statistics from the Canadian Real Estate Association (CREA) showed that home resales plummeted by more than 25% between April and May—the most significant one-month drop this market has seen since October 2008. And more sellers came out of the woodwork, further adding to the significant rise in listings that began in April. In two short months, Toronto's has swung dramatically from a scorching hot seller's market to one that is on the fringe of becoming a buyer's market. The government's plan has yet to cool benchmark prices in a material way in the GTA. But a sharp drop in average prices—which in part reflects a change in the composition of sales—signals that this cooling may be just around the corner.

#### ...but other markets remain favourable to sellers

A big question going into today's CREA report was the extent to which the cooling in the GTA would spread to other parts of southern Ontario. In the event, activity did slow down in several markets in the region surrounding the GTA, including Hamilton, Kitchener-Waterloo and Niagara Falls. Yet resales in these markets did not fall as much as they did in the GTA, and generally not enough to transition these markets out of seller's market territory. So prices held up for the most part in southern Ontario markets outside the GTA with few signs of imminent weakening at this stage. That being said, it may be just a matter of time before the GTA's cooling spreads to these regions. The earlier heating up phase took several months to move from Toronto to its surrounding areas and we expect a similar lag for the cooling phase.

#### Vancouver market takes a breather

Activity in the Vancouver-area market took a breather in May after rebounding strongly in April. Home resales edged lower by 0.6% from April. More properties

### May Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-1.6	14.1	17.9	0.56
Toronto	-20.8	48.4	29.0	0.41
Montreal	14.5	1.6	3.6	0.62
Vancouver	-9.9	-4.6	8.8	0.71
Calgary	9.0	14.4	0.1	0.52

#### Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

#### Sales-to-new listings ratio in Canada

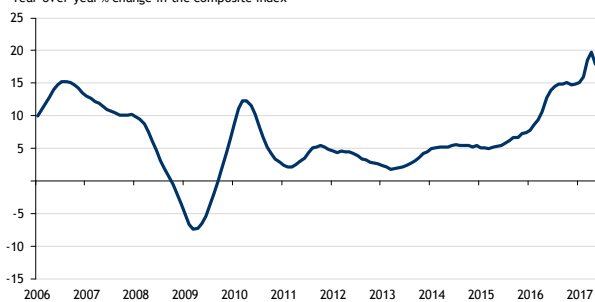
S.A., monthly



Source: CREA, RBC Economics Research

#### MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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were put up for sale for a third-straight month but the increase was quite small. The annual pace of price appreciation continued to moderate to a two-year low of 8.8%. We may be close to the end of this easing cycle, however, because demand-supply conditions have become more favourable to sellers in recent months and prices have increased month-to-month since February.

**Mixed performance elsewhere in Canada last month**

Conditions varied considerably across the rest of Canada last month. There were signs of weakness in the Prairies. After sustaining an upward trend in the past year, resales declined in both Calgary and Edmonton—although Calgary prices still managed to climb above the year-ago level for the first time since mid-2015. Regina resales plummeted by more than 31% and activity in Winnipeg fell for the first decline in four months. Things were more upbeat in Quebec, however, where Montreal and Quebec City recorded strong monthly sales gains. Prices remained well behaved in Montreal, rising just 3.6% from a year ago. Finally, activity picked in most of Atlantic Canada.

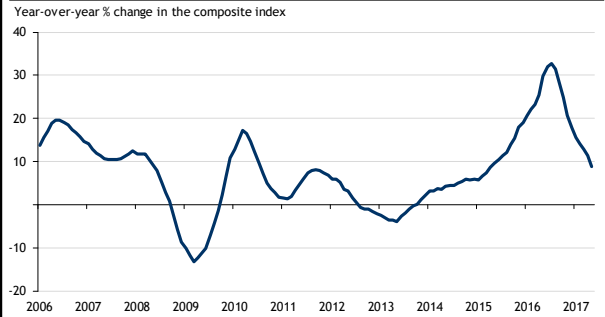
**What’s next for the Ontario market?**

The strong reaction to Ontario’s Fair Housing Plan no doubt will fuel concerns that the market may ‘overshoot’. Our view is that the risk of a downward spiral is low. One of the main objectives of the Fair Housing Plan is to rein in market expectations, and the sharp volatility we have seen in the past couple of months is the result of shifting buyer and seller sentiment. It will probably take a few more months for southern Ontario markets to adjust, during which time demand-supply conditions may become more favourable to buyers. We would consider such an outcome as positive because it would help restore some of the considerable loss of affordability in recent years.

**Sticking with our forecast for a ‘soft landing’**

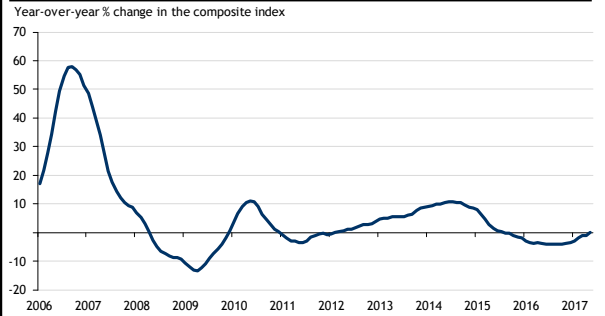
Market developments in Ontario have been more dramatic than we expected. Still, we believe that they are consistent with our view that home resales will ‘land softly’ this year and that prices will increase at a slower rate than in 2016. In fact, we view today’s data as confirmation that the market has passed a turning point. We project a modest 2.4% drop in home resales and 9.3% rise in prices in Ontario in 2017. Our forecast for Canada calls for a 5.3% decline in home resales and 4.8% increase in prices this year.

**MLS Home Price Index - Vancouver**



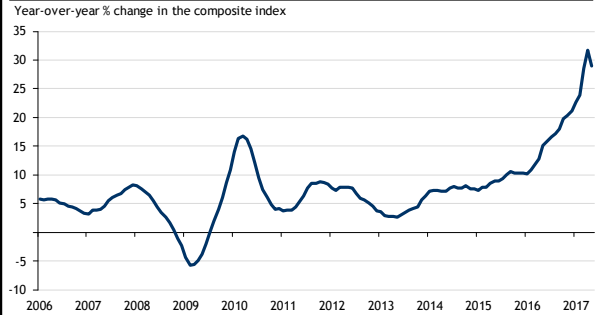
Source: CREA, RBC Economics Research

**MLS Home Price Index - Calgary**



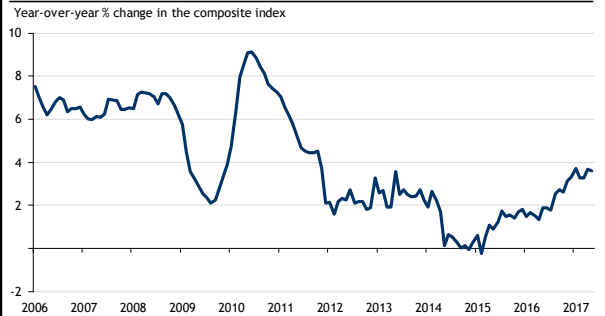
Source: CREA, RBC Economics Research

**MLS Home Price Index - Toronto**



Source: CREA, RBC Economics Research

**MLS Home Price Index - Montreal**



Source: CREA, RBC Economics Research

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