MONTHLY HOUSING MARKET UPDATE

March 15, 2018

The payback continues: home sales fell again in February following regulatory change on Jan 1

- Canadian home sales fell 6.5% month-over-month on a seasonally adjusted basis in February following a 13.8% decline in January.
- The swing in resale activity—from a record high in December to a nearly five-year low in February—is largely in response to tighter qualifying requirements for uninsured mortgages introduced on January 1. January's interest rate hike by the Bank of Canada also might have impacted sales activity in February.
- The decline in resales was once again widespread across the country, providing further evidence that regulatory changes and not local market conditions were behind softer activity early this year.
- Sellers moved to the sidelines in January, and while new listings rose 8.1% in February they remained at one of the lowest levels in recent years.
- The decline in resales and pickup in new listings pushed the sales-to-new listings ratio back into 'balanced' territory at 0.55 in February.
- The pace of price growth continued to slow, dipping to 6.9% year-over-year from 7.7% in January. The Toronto area once again accounted for most of this deceleration.
- A good portion of the slowing in resales early this year simply reflects payback for activity pulled forward into 2017. But the scope of declines suggest tighter mortgage regulations are indeed having a cooling effect. Whether that impact is largely psychological or reflects a substantial pool of buyers being shut out by stricter qualifying rules remains to be seen. How the market evolves through the upcoming Spring sales season will be informative.

The big swing in resales continued…

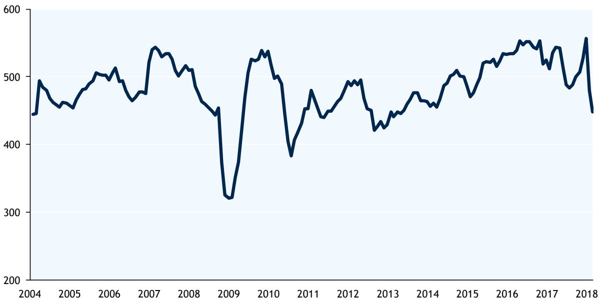
The roller coaster ride that was Canada's housing market in 2017 has continued this year with resales posting another sizeable decline in February. As with the drop-off in January, declines were widespread across the country though the pullback has been particularly sharp in less affordable markets like Toronto and Vancouver. This slowdown partly represents payback for strong sales activity late last year when an impending change in qualifying requirements led to a flurry of activity. But looking at average sales over the past four months or so, it appears the new B-20 regulations have had more of an impact than simply bringing activity forward to 2017. Stricter qualifying requirements for uninsured mortgages are keeping some potential homebuyers from entering the market, and a psychological impact is also likely at play. That sellers have moved to the sidelines to see how the market reacts hasn't helped resale activity early this year.

February snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-16.9	-1.7	6.9	0.55
Toronto	-35.4	7.0	3.2	0.46
Montreal	7.7	-5.8	6.2	0.68
Vancouver	-8.9	15.9	16.9	0.49
Calgary	-14.6	-3.2	0.1	0.56

Home resales in Canada

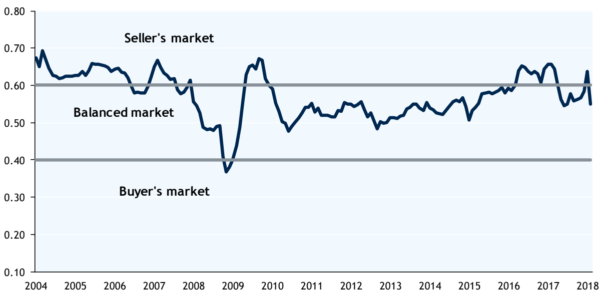
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

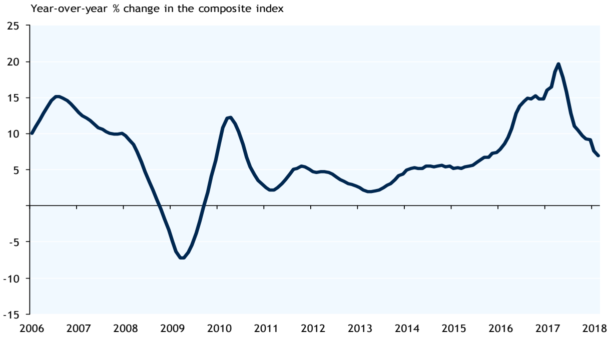
S.A., monthly



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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…and sellers generally remained in wait-and-see mode

We thought January's 21% decline in new listings was just as interesting as the pullback in resales. While new listings recovered somewhat in February, rising 8.1% from the previous month, they remained low relative to recent history. As with resales, some of the weakness in new listings early this year reflects a pull-forward of activity into late 2017 when sellers also tried to get ahead of rule changes impacting potential buyers. But we also think some would-be sellers are waiting to see how the market adapts to yet another regulatory change. With the knee-jerk reaction to tighter mortgage rules likely to fade somewhat in the coming months, we wouldn't be surprised to see further recovery in new listings.

More markets were in 'balanced' territory…

The decline in resales in February, combined with an increase in new listings, helped return the market to 'balanced' territory at the national level. The sales-to-new listings ratio more than retraced the previous month's increase, hitting a seven-month low of 0.55. By our calculation, less than half of local markets now have a sales-to-new listings ratio above 0.50. For the first time in four years that includes Vancouver, where another sizeable drop in resales and a decent rebound in new listings pushed the ratio down to 0.49 from 0.71 in January. Monthly changes in sales and new listings were less pronounced in Toronto, where the market remained balanced with a sales-to-new listings ratio of 0.46 in February.

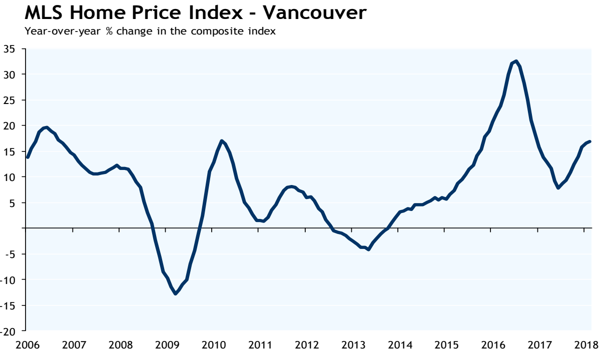
…though slower price growth was mainly in Toronto

Price growth continued to slow at the national level with the benchmark composite price up 6.9% from a year ago, the slowest pace of increase since October 2015. Rather than reflecting more balanced demand-supply conditions across markets, the slowing was once again concentrated in the Toronto area. Prices in Toronto were up just 3.2% from a year ago, well off the peak increase of more than 30% last April. The single family segment remained the epicenter of that slowing, with prices actually *falling* slightly on a year-over-year basis for the first time since 2009. The apartment/condo segment has seen much less cooling with prices still up 18.8% from a year ago.

In contrast, price growth continued to edge higher in Vancouver, hitting 16.9% in February from a trough of 7.9% last June. The pace of acceleration has slowed in recent months though, consistent with more balanced market conditions outside of January's drop in new listings. Market conditions continued to favour sellers in Montreal, where price growth is now running at its fastest pace in seven years. But the rate of increase is still in the single digits—a far cry from the rapid increases seen in Toronto and Vancouver in recent years. Home prices in Calgary were roughly flat relative to a year ago as sales activity remains relatively subdued, even as the regional economy continues to recover from the oil price shock.

Look for some stabilization in the coming months

Canada's housing market has been whipsawed by the stricter mortgage qualifying requirements that were introduced in January. That change brought forward many buying and selling decisions in late 2017, and caused others to adopt a wait-and-see approach early this year. We expect the impact of the new qualifying rule will ease gradually in the coming months and activity will partially recover. But overall, the combination of regulatory changes and rising interest rates is expected to result in more subdued housing market activity this year, and much more reasonable price growth. Our forecast is for resales to decline 3.7% to 497,400 units in 2018. We think price growth will be limited to just 2.0% at the national level, down significantly from the double-digit pace seen in 2017.



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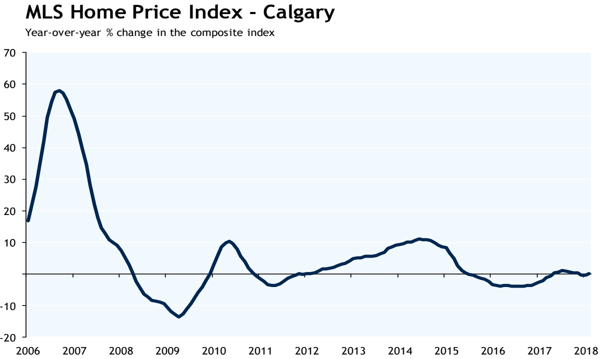

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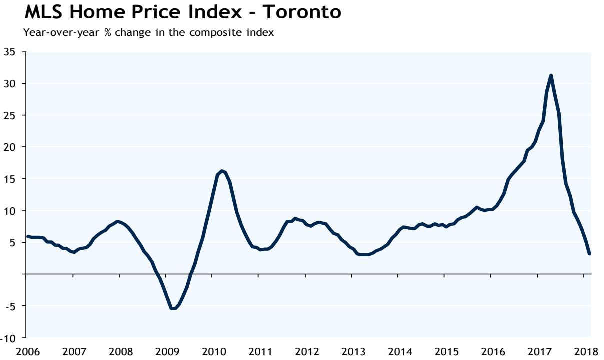

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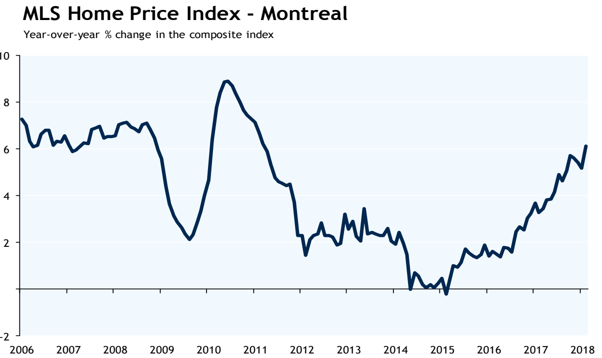

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