

MONTHLY HOUSING MARKET UPDATE

May 15, 2017

Canada's housing market cooled in April as supply surged in Ontario

- The preliminary verdict is in: Ontario's Fair Housing Plan announced on April 20 appears to have had a noticeable rebalancing effect on that province's market.
- Sellers came out of the woodwork in Ontario last month as new listings surged by 21.6% from April, the strongest increase on record.
- Despite sellers listing their properties in record numbers amid slower home resale activity (down 6.7% from March), Toronto-area prices continued to accelerate to a year-over-year rate of 31.7% in April.
- Persistent strength in Ontario prices drove the national index higher to 19.8% from 18.6% in March and 10.6% in April 2016.
- In the Vancouver area, on the other hand, price increases eased further to 11.4%, although this could be approaching a cyclical bottom given growing evidence that the restraining effects of earlier government measures are waning.
- Last month's developments were consistent with our forecast of a moderation in home resales and price increases this year, although there is a fair degree of uncertainty about the impact of policy measures announced in April.

Home resales eased in Canada in April;...

Statistics from the Canadian Real Estate Association released this morning showed that home resales in Canada fell by 1.7% in April to 549,000 units (seasonally adjusted and annualized) from a record level of 558,400 units in March. Most of the decline occurred in Ontario, where activity dropped by 5.7%—the steepest monthly decline more than three years in that province—although a 9.9% rise in British Columbia provided some offset.

...however, a surge in listings was the bigger news

The more noteworthy market development in April was a sharp 10% rise in new listings in Canada, thereby representing the third significant increase in a row. Once again, it was Ontario (where new listings surged by 21.6% from the March level) that accounted for most of this increase. Within Ontario, the Toronto area saw an all-time high of 18,318 properties added to the for-sale inventory in April, or close to 5,000 more units than the monthly average during the past three years.

Prices are still rising rapidly

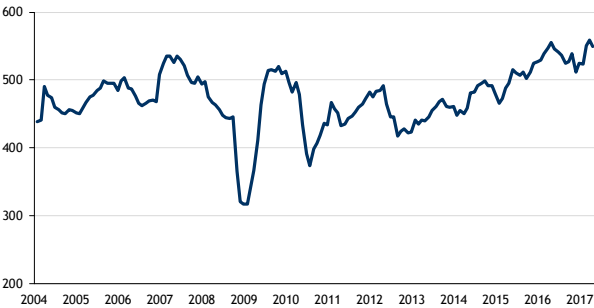
Despite a significant easing of demand-supply conditions nationally—the sales-to-new listings ratio for Canada fell from 0.67 in March to 0.60 in April—prices remained on a steep upward trajectory. The MLS Home Price Index (HPI) accelerated further to a year-over-year rate of increase of 19.8%, up from 18.6% in March and 10.6% in April 2016. Price pressures were most intense in Ontario. The MLS HPI rose month over month for the third-straight time in Vancouver.

Encouraging start for Ontario's Fair Housing Plan,...

We'll never know whether it was the anticipation or the announcement of govern-

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

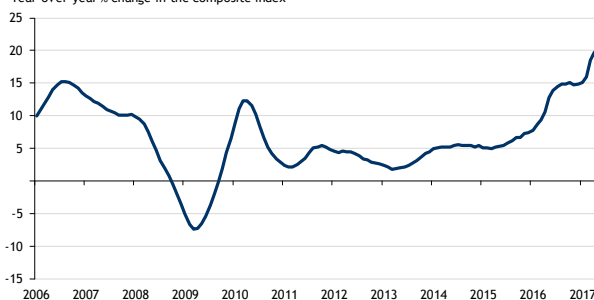
S.A., monthly



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

April Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-7.5	-2.0	19.8	0.60
Toronto	-3.8	33.1	31.7	0.52
Montreal	0.0	-7.4	3.7	0.58
Vancouver	-26.2	-20.2	11.4	0.73
Calgary	7.8	3.5	-0.9	0.58

ment measures—or neither!—that triggered the swift market response in Ontario but something definitely happened in Ontario’s housing market in April. And that ‘something’ was a positive development. We finally saw some moderation in the supercharged demand in the province and, most importantly, a sharp increase in the supply of homes for sale. The surge in the number of homes listed for sale in the Toronto area last month, in particular, brought welcome relief to Canada’s hottest market where supply had been excessively short of demand since the beginning of 2016. In the course of a single month, Toronto swung from being one of Canada’s tightest markets to a balanced market—based on the sales-to-new listings ratio dropping from 0.76 in March to 0.52 in April (a ratio between 0.40 and 0.60 is typically considered to be balanced). We suspect that this is an outcome that the Ontario government could only hope for when it put together its Fair Housing Plan released on April 20.

...although it has yet to temper price trajectories in the province

The only fly in the ointment for Ontario in April was that home prices generally continued to rise at an accelerating pace. In Toronto, the MLS HPI rose by 31.7% from a year ago, very close to matching the peak rate in Vancouver reached in July 2016. That being said, it could be just a matter of time before price advances moderate in Toronto and Ontario more generally if balanced demand-supply conditions are sustained in the coming months. Indeed, we note that the average price of homes sold fell by 1.5% between March and April in Toronto, which could be an early indicator of moderation.

Is April a one-month wonder or a turning point in Ontario? Probably both

As encouraging as the market developments were in Ontario in April, we expect that the record increase in new listings will be partially reversed in the coming months. We suspect that the news of government intervention (both before and after the actual announcement date) prompted a number of speculators to ‘cash in’ their chips, and believe that this ‘selling on the news’ phenomenon will quickly run its course. Nonetheless, we believe the Fair Housing Plan constitutes a material change for Ontario’s market, which should temper price expectations among both buyers and sellers—at least for a period of time. Accordingly, we anticipate further cooling in demand, as well as an upturn in the trend of active listings in the Toronto market in the months ahead.

Cooldown period is over in Vancouver?

Developments were at the opposite end of the spectrum in Vancouver, where resales rose strongly by 15.6% month-over-month in April, causing the sales-to-new listings ratio to tighten for a third straight month to 0.73. While the annual rate of increase in Vancouver’s MLS HPI eased further to 11.4%, the index climbed for a third consecutive time on a month-over-month basis. These developments suggest to us that the cooling effect of housing measures implemented last year may be wearing off in Metro Vancouver.

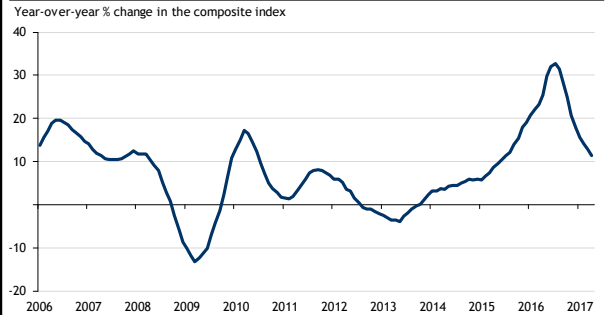
Recovery continues in Alberta

Today’s CREA report also provided encouraging news for Alberta’s market where home resales continued to trend upwardly. Prices in Calgary are on the verge of moving above year-ago levels, which we expect in the coming months amid improved balance between demand and supply.

Policy action supports our forecast for moderation

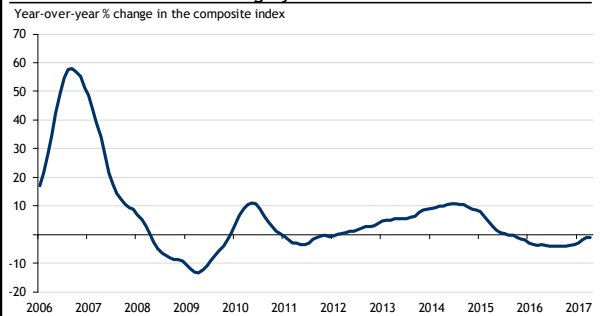
While the Ontario government’s policy action in April was not a surprise, its impact on the market is quite difficult to gauge because some of the 16 announced measures can have conflicting influences depending on their timing and market perceptions. At this stage, we believe that the net impact of these measures in Ontario is most likely to be consistent with the moderation in resale activity and price increases that we project in our housing forecasts: 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



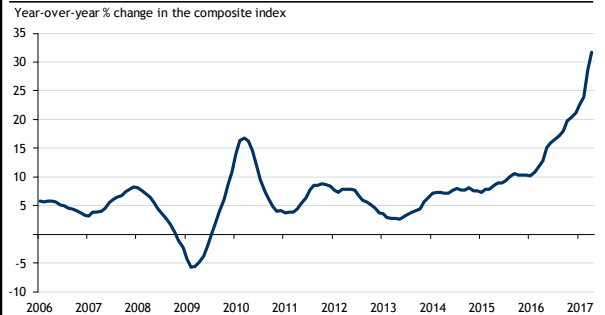
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



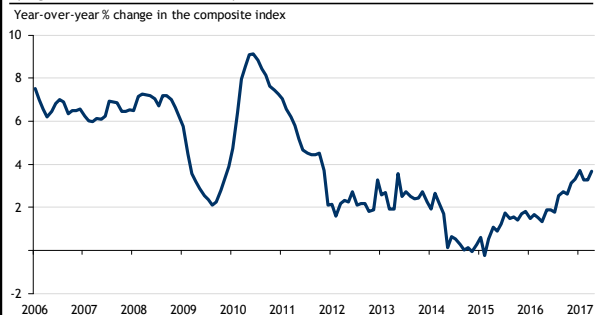
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

