

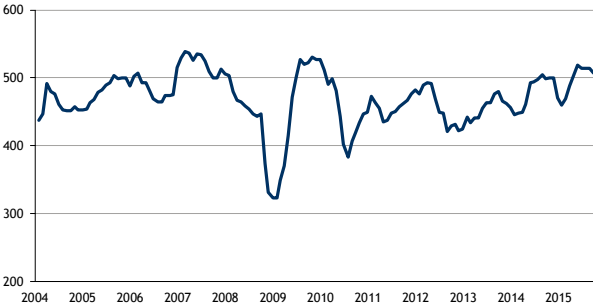


MONTHLY HOUSING MARKET UPDATE

November 16, 2015

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

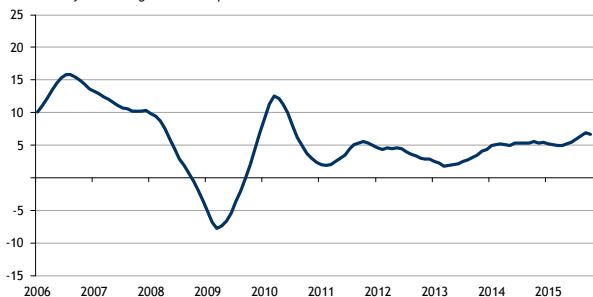
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Home resales edged higher in Canada in October; price increases stabilized

There was no let up in Canada's housing market in October. In fact, statistics released this morning by the Canadian Real Estate Association (CREA) showed that home resales reached the second-highest total on record for the month of October, rising 1.8% m/m from September. The gain followed two months of easing. Resales increased m/m in the majority of local markets—including Calgary—with strong contribution coming from British Columbia (e.g., Greater Vancouver, the Fraser Valley and Victoria). The Toronto and Hamilton areas also saw further gains. Home prices continued to be a two-tiered story in Canada with Vancouver, other BC markets and Toronto posting double-digit advances, and markets in the rest of the country showing subdued gains at best. The pace in the 'hot' markets of BC accelerated further—particularly in the Vancouver area where the rate of increase in the MLS Home Price Index (HPI) reached a five-year high of 15.3% y/y—however; things stabilized in the Toronto area (MLS HPI edged slightly lower to 10.3% y/y), after six months of steady acceleration. Home prices in Calgary weakened further with the y/y change in MLS HPI slipping more clearly into negative territory (-1.1%) for the first time since 2011. Overall in Canada, the rate of home price increases eased slightly in October (the MLS HPI was up 6.7% y/y compared to 6.9% in September).

Supply-side constraints were still very present in Canada's 'hot' markets with new listings in Vancouver and Toronto rising less rapidly than resales, thereby leading to even tighter demand-supply conditions in these markets. The main implication is that rapidly rising price increases are likely to be sustained in the near term, which no doubt will fuel concerns about overheating in these markets. Elsewhere in Canada, markets continue to be generally balanced. Exceptions include the Fraser Valley and Victoria in BC, and Hamilton in Ontario where conditions favour sellers, and Saskatoon where conditions favour buyers. In Calgary, poor market sentiment weigh on prices despite the sales-to-new listings ratio being consistent with balance.

In both Vancouver and Toronto, tight market conditions reflect primarily the situation for the single-detached home segments, where demand clearly exceeds supply at this stage. On the condo side, however, supply is more readily available, which works to moderate the pace condo price increases. In both markets, single-detached home prices rise at approximately twice the rate of condo prices.

Key numbers from CREA's October report:

- Home resales rose by 1.8% in Canada between September and October 2015 (on a seasonally-adjusted basis), following declines of 0.2% in August and 1.3% in September. Relative to a year-ago, resales were little changed, up marginally by 0.1% (unadjusted). This represented the second-straight month of relatively stable y/y gains following strong increases during the spring and summer which culminated at a recent peak of 11.3% recorded in June.
- A small majority of local markets saw a m/m rise in resales in October, including Victoria (+8.6%), Vancouver (+7.7%), Hamilton (+6.7%), Toronto (+3.0%), Calgary (+2.1%) and Montreal (+1.6%). Resales declined in a several

October Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	0.1	-4.9	6.7	0.58
Toronto	2.9	-1.0	10.3	0.63
Montreal	8.5	-3.9	1.4	0.52
Vancouver	19.3	-7.9	15.3	0.79
Calgary	-36.4	-9.3	-1.1	0.54

Robert Hogue
Senior Economist
(416) 974-6192
robert.hogue@rbc.com

markets, including Halifax (-8.8%), Saskatoon (-3.5%), Ottawa (-3.0%), Edmonton (-2.9%) and Winnipeg (-1.8%). Compared to a year ago, results continued to contrast sharply across the country with strong gains in BC (Fraser Valley up 21.0%, Victoria up 19.7% and Vancouver up 19.3%) and, to a lesser extent Hamilton (+12.8%), Montreal (+9.0%) and Toronto (+2.9%) offsetting steep declines in Calgary (-36.4%), Saskatoon (-21.8%), Edmonton (-16.3%), Regina (-12.3%) and Winnipeg (-3.7%).

- New listings increased modestly by 0.9% m/m in Canada in October, after declining quite markedly by 2.5% in September. New listings rebounded in Victoria, the Fraser Valley and Greater Vancouver (up 14.7%, 6.9% and 2.8%, respectively) after dropping in each of these markets in September. New listings also rose in Calgary (+1.9%), Winnipeg (+1.6%), Toronto (+0.8%) and Montreal (+0.5%) but fell in Ottawa (-7.8%), Edmonton (-3.6%), Saskatoon (-3.4%) and Regina (-2.8%). Relative to a year ago, new listings were down 4.9% in Canada, with declines in the majority of markets.
- The sales-to-new listings ratio—a measure of demand-supply balance—inhaled higher to 0.58 in October from 0.57 in the previous four months. The measure drew closer to the upper boundary of the 0.40 to 0.60 band typically associated with market balance, thereby indicating that upward price pressure is present despite being contained at the national level. The ratio jumped from 0.75 in September to a very high 0.79 in October in Vancouver, and from 0.62 to 0.63 in Toronto—both pointing to tight demand-supply conditions consistent with accelerating price increases. The ratio was unchanged in Calgary at 0.54 after dropping sharply by 6.2 percentage points in September.
- Total inventory expressed in number of months' worth of sales ticked slightly lower to 5.5 from 5.7 in September. This remains well below the recent peak of 6.5 recorded in January 2015.
- The composite MLS HPI continued to increase at a brisk pace in Canada in October (6.7% y/y), although we saw the first deceleration (albeit very slight from 6.9% in September) in eight months. Strong gains in British Columbia (15.3% in Vancouver, 10.5% in the Fraser Valley and 6.8% in Victoria) and the Toronto area (up 10.3%) were still the main drivers of price increases in the country. Within these markets, price advances were the fastest in single-detached home segments at approximately twice the rate of condo apartment prices. Pricing conditions were much cooler in other markets across Canada, with mild MLS HPI gains recorded in Montreal (1.4% y/y) and Ottawa (0.5%) and declines recorded in Regina (-4.3%), Saskatoon (-1.4%) and Calgary (-1.1%).

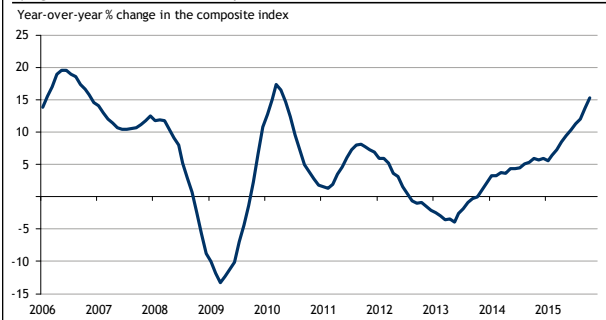
Commentary

The housing market picture remained a contrasting one across the country in October. Vancouver and Toronto still displayed signs of heat—and possibly overheating in some of their market segments—whereas other local markets still range between recovering slowly to struggling. This bifurcated landscape clearly has emerged as the hallmark of 2015 and might well continue to characterize the state of affairs into at least the early part of 2016 considering the diverging economic and demographic prospects across provinces in the near term.

As we pointed in previous commentaries, a main implication is that Canada's housing market faces opposing risks in the near term. On one side, Vancouver and Toronto risk becoming overly hot; while on the other side, markets in oil-producing provinces such as Calgary risk being stuck in correction mode. We are encouraged to see that price increases moderated ever so slightly in October in the Toronto area; however, the further (rapid) acceleration in Vancouver increasingly hints at bubble-like dynamics in that market. In Calgary, we suspect that the modest monthly gains in resales in October may not be sustained in the coming months considering the serious economic challenges facing in Alberta.

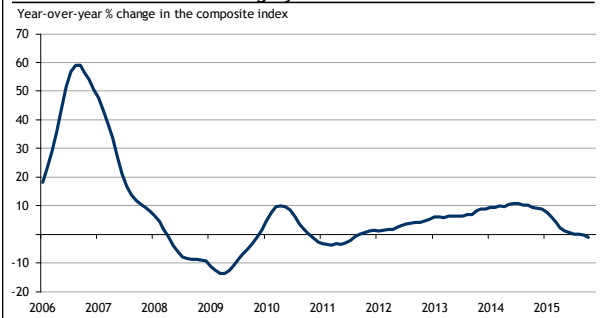
We expect that continued headwinds in markets sensitive to the oil sector and the activation of self-correcting mechanisms (e.g. deteriorating affordability, rising supply of newly built homes) in Canada's high-priced markets later next year will lead home resales in Canada to ease by 0.7% in 2016 following a solid projected gain of 5.0% in 2015.

MLS Home Price Index - Vancouver



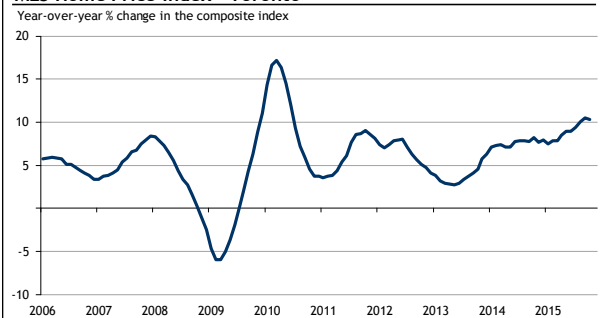
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



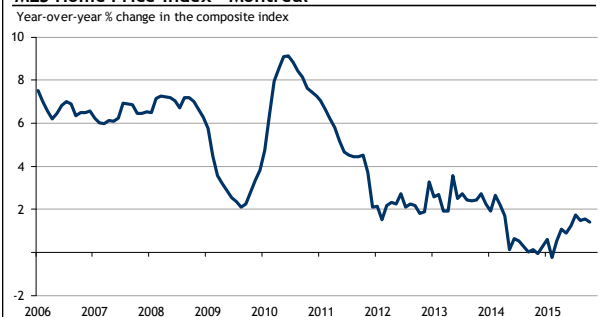
Source: CREA, RBC Economics Research

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.

