

## ASSESSING CITY HOUSING MARKET FUNDAMENTALS

December 2006

### City resale markets

% change, Jan-Nov 2006/2005

	Sales	New listings	Prices
Calgary	5%	12%	39%
Edmonton	18%	-3%	27%
Vancouver	-13%	3%	21%
Victoria	-5%	20%	13%
Halifax	3%	1%	11%
Saskatoon	6%	-5%	11%
Sudbury	1%	-2%	11%
Hamilton	-4%	4%	9%
Kitchener	0%	7%	8%
St. Catharines	-2%	11%	8%
Trois-Rivieres	8%	13%	7%
London	0%	6%	7%
Montreal	1%	6%	6%
Regina	7%	3%	7%
Quebec City	1%	8%	6%
Saint John	3%	4%	5%
Toronto	-1%	5%	5%
Ottawa	4%	-1%	4%
Thunder Bay	23%	7%	1%
Windsor	-11%	3%	0%
St. John's	10%	8%	-1%

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Canada's housing markets delivered another strong year. Resale activity remains elevated, price growth is still strong and housing starts are tracking above last year's pace. But many markets have recently started to cool off, which begs the questions of have markets reached their peaks and how soft will they get? The nationwide average price of existing homes continues to climb at a vigorous annual pace of 11% year-to-date. But similar to so many other economic indicators, these national trends are significantly skewed by a distinct regional story.

Conditions out west are still fairly tight as supply constraints continue to push up prices. But, apart from a few isolated city markets out west, the majority of housing markets has already come off earlier peaks and started to cool. East of Manitoba, house price growth is generally below the national average with the rate of price appreciation in many cities now either flat to the mid single-digit range. Although the pace of the current housing market correction varies dramatically across cities, the dominant trend across many of Canada's metro cities during the last couple of months has been a weaker pace of resale activity, an increase of inventories on the market, and more moderate price growth. These key fundamental trends point towards more balanced housing market conditions across most cities in the coming year.

### A return to more balanced housing markets

The pace of resale activity relative to new listings is a good indicator of the underlying supply and demand pressures on housing markets. Page 4 illustrates resale conditions across several of Canada's metro cities. A trend analysis of resale conditions using sales-to-listings ratios during the past several years provides insight about those markets in excess demand (potential seller's territory), those in balanced territory, and those in excess supply (potential buyer's territory). These categories provide a rough guide by which to rank cities based on supply and demand conditions and then to assess house price movements and income trends to determine whether the market fundamentals justify the price movements.

### Potential seller's territory

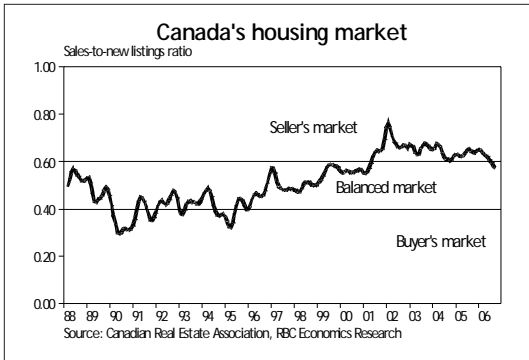
Many of the cities in western Canada have been pushed into a state of excess demand, creating an attractive climate for prospective sellers. Those cities tracking the strongest average sales-to-listings ratios this year include Edmonton, Calgary, Saskatoon, Hamilton, Regina, Vancouver, Kitchener, and Halifax. Many of these markets started to heat up in 2001 and still remain highly active. We differentiate conditions within these cities based on whether underlying fundamentals in these economies are supporting price gains.

### Pace of rapid run-up in house prices likely to soften:

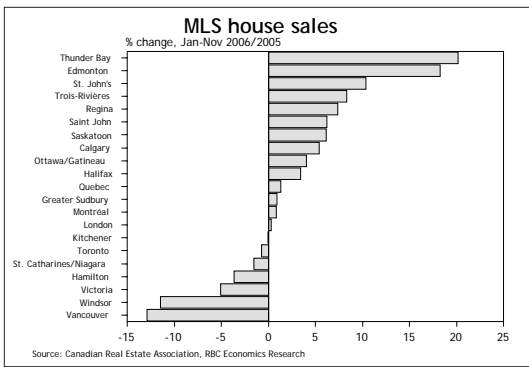
Recent concern has arisen about the speed at which house prices in some markets have accelerated and the inability of incomes to keep pace. Dramatic year-over-year

# City housing market fundamentals

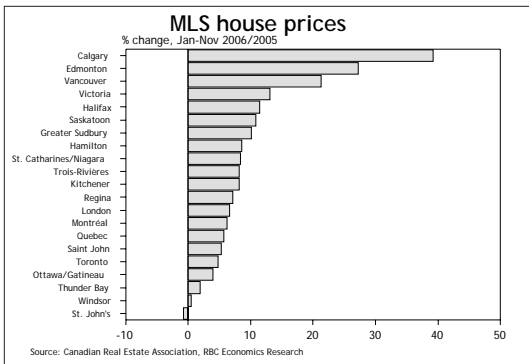
## CANADA'S HOUSING MARKET REGAINS SOME BALANCE...



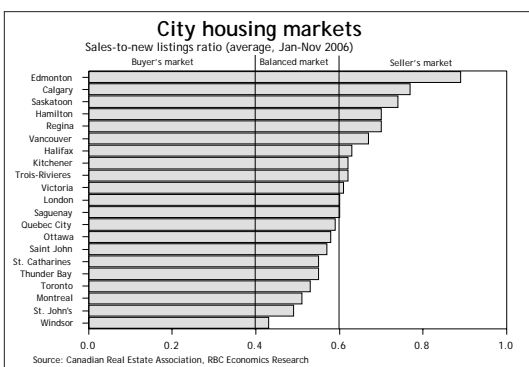
## ...AS MANY RESALE MARKETS SOFTEN...



## ..AND HOUSE PRICE GROWTH COOLS OFF...



## ...WITH SALES-TO-LISTINGS RATIOS MODERATING.



house price gains in Calgary (up 47%), Edmonton (up 41%) and Vancouver (up 22%) are outpacing income growth. As these economies have heated up, capacity constraints have pushed these markets into excess demand. But we have already begun to witness a decline in their sales-to-listings ratios during the last couple of months. In all three markets, we expect to see a continued moderation in house price growth towards a pace that is closer in line with income growth. Vancouver has already started to see fundamentals change course with sales declining and new listings expanding, which should make way for softer conditions ahead. In Calgary and Edmonton, we expect an increased supply of homes on the market to help contain the dramatic price growth going forward. As demand pressures ease, markets are likely to start coming off recent peaks.

## More gradual price growth points to a soft landing:

Several other city housing markets still remain constrained by demand pressures including Saskatoon, Hamilton, Regina, Kitchener and Halifax. But price movements have been much less dramatic and largely accompanied by solid fundamentals such as healthy employment and wage gains. Tight supply has heated up these markets, but a modest cooling appears in the cards as price growth has already started to moderate towards the single-digit growth range.

Saskatoon and Regina remain well into seller's territory. Saskatoon's market still remains fairly tight, but the market has also been supported by fairly robust fundamentals. Regina, although still tilted towards a seller's market, has started to expose softness with both sales and listings now growing at roughly the same pace. Although most of central and eastern Canada has followed a soft landing path, Hamilton, Halifax and Kitchener have been delayed in following the trend. While these markets still favour sellers over buyers, all three are likely to see a moderation in the coming year as an increase in supply eases demand.

## More balanced territory

The majority of cities we track now fall into the balanced market category. Some of these markets have just returned to balance (London, Victoria, Quebec City, St. Catharines), while others have been in balanced shape for a sustained period (Ottawa, Saint John, Kingston, Thunder Bay, Toronto, Montreal). Many of these markets have seen house price growth retreat to the mid single-digit pace of growth as resale activity cools off gradually and inventory expands.

## Soft landing already under way...with more moderation ahead:

Many cities across central and eastern Canada have already swung into balanced territory during the last year in an orderly and controlled manner. London, Quebec City and St. Catharines all moved into seller's territory about five years ago and only recently have started to come off their peaks.

A similar pattern in all three markets is that, since the start of the year, the pace of resale activity has flattened out, the pace of new listings has picked up and house price growth is now bouncing around the 6-8% range. As more supply comes on stream, we expect markets to continue to lose steam in the coming year. Victoria has also started to witness much softer demand conditions. The pace of resale activity has cooled and new listings have started to pile up contributing to a more moderate, but still strong, pace of house price growth.

## Current economic indicators

Latest month available, year-over-year % change unless otherwise indicated

Cities are ranked in descending order by population size

Census metropolitan area	Job growth Nov-06	Jobless rate Nov-06 (Level)	Res. permits <sup>1</sup> Oct-06	Non-res. permits <sup>1</sup> Oct-06	MLS prices Nov-06	MLS sales Nov-06	Housing starts Oct-06	Downtown office vac (%) Q3 2006	CPI Oct-06	Consumer bnkrpts <sup>1</sup> Oct-06	Business bnkrpts <sup>1</sup> Oct-06	Retail sales Sep-06 (Est.)
Toronto	-0.3	6.5	24.2	7.7	5.4	-5.7	58.1	8.3	0.7	2.4	-2.5	2.1
Montréal	3.7	7.6	-3.2	16.5	3.5	3.8	39.7	11.6	1.0	8.2	-1.5	2.9
Vancouver	3.4	4.0	-17.9	96.1	16.7	-15.4	-37.5	4.0	1.7	-2.7	-55.9	7.1
Ottawa-Gatineau	0.6	5.5	-4.6	-35.3	4.5	0.2	-0.8	3.7	0.5	-0.5	-22.0	na
Calgary	10.7	2.8	22.8	195.7	41.0	-10.1	-20.4	0.6	4.2	-50.1	-29.3	na
Edmonton	4.4	3.4	50.6	-1.2	40.9	12.0	-4.8	4.0	1.9	-28.0	-36.8	na
Quebec	-1.7	5.0	-4.4	25.1	1.8	7.1	-45.5	na	0.4	-4.1	30.8	na
Hamilton	-1.3	6.0	63.0	-58.5	3.8	-9.5	5.0	na	na	-12.0	-8.9	na
Winnipeg	2.7	4.4	15.5	46.7	na	na	109.7	na	1.4	-13.5	127.3	na
London	4.0	5.9	30.1	-20.8	4.6	-3.4	-5.1	na	na	0.7	-38.8	na
Kitchener	2.6	4.9	-24.1	85.2	0.8	-0.8	-67.2	na	na	22.8	na	na
St. Catharines-Niagar	0.4	5.7	10.3	28.7	6.8	-9.3	-39.1	na	na	-9.2	-4.3	na
Halifax	2.1	4.3	26.9	-20.4	1.9	-6.1	-20.1	7.1	0.5	-8.8	-3.1	na
Windsor	3.5	7.8	-47.3	-19.3	8.1	-10.0	-77.3	na	na	-1.4	-4.5	na
Victoria	2.7	3.9	59.9	-47.8	14.3	10.5	143.2	4.4	0.7	-21.4	-50.0	na
Oshawa	0.5	6.7	-10.2	-55.1	na	na	27.2	na	na	-8.0	9.1	na
Saskatoon	6.6	2.8	52.4	-13.5	11.7	2.4	51.0	8.4	1.7	-15.5	-30.0	na
Regina	5.3	4.4	75.6	191.7	12.7	4.9	51.9	7.4	1.6	-16.8	-16.7	na
St. John's	6.4	6.9	-24.7	5.0	-0.9	6.5	-34.9	na	0.6	12.1	-20.0	na
Sherbrooke	1.6	7.3	4.1	326.4	9.0*	13.7*	91.1	na	na	-14.2	50.0	na
Greater Sudbury	4.4	6.8	59.9	98.0	22.3	-11.6	46.4	na	na	-1.6	na	na
Abbotsford	5.2	3.7	18.1	-45.5	na	na	282.2	na	na	na	na	na
Kingston	-1.4	5.4	15.3	-34.0	4.9*	7.8*	50.0	na	na	5.6	28.6	na
Saguenay	-1.6	9.1	-3.8	16.3	na	na	6.1	na	na	na	na	na
Trois-Rivières	-2.3	7.2	-9.8	132.0	2.3	0.0	-28.4	na	na	-1.7	18.2	na
Saint John	1.2	4.8	7.4	80.3	5.1	-23.2	-57.1	na	-0.5	3.3	-50.0	na
Thunder Bay	-2.9	6.0	8.8	38.2	-0.4	45.7	-46.2	na	0.2	-13.4	-26.7	na
Canada	1.7	6.3	12.6	11.7	10.5*	-3.5*	5.2	na	0.9	-4.8	-9.5	7.2

\* As of October, 2006

<sup>1</sup> Three-month trend

Source: Statistics Canada, Industry Canada, Canada Mortgage and Housing Corporation, Colliers International, Canadian Real Estate Association

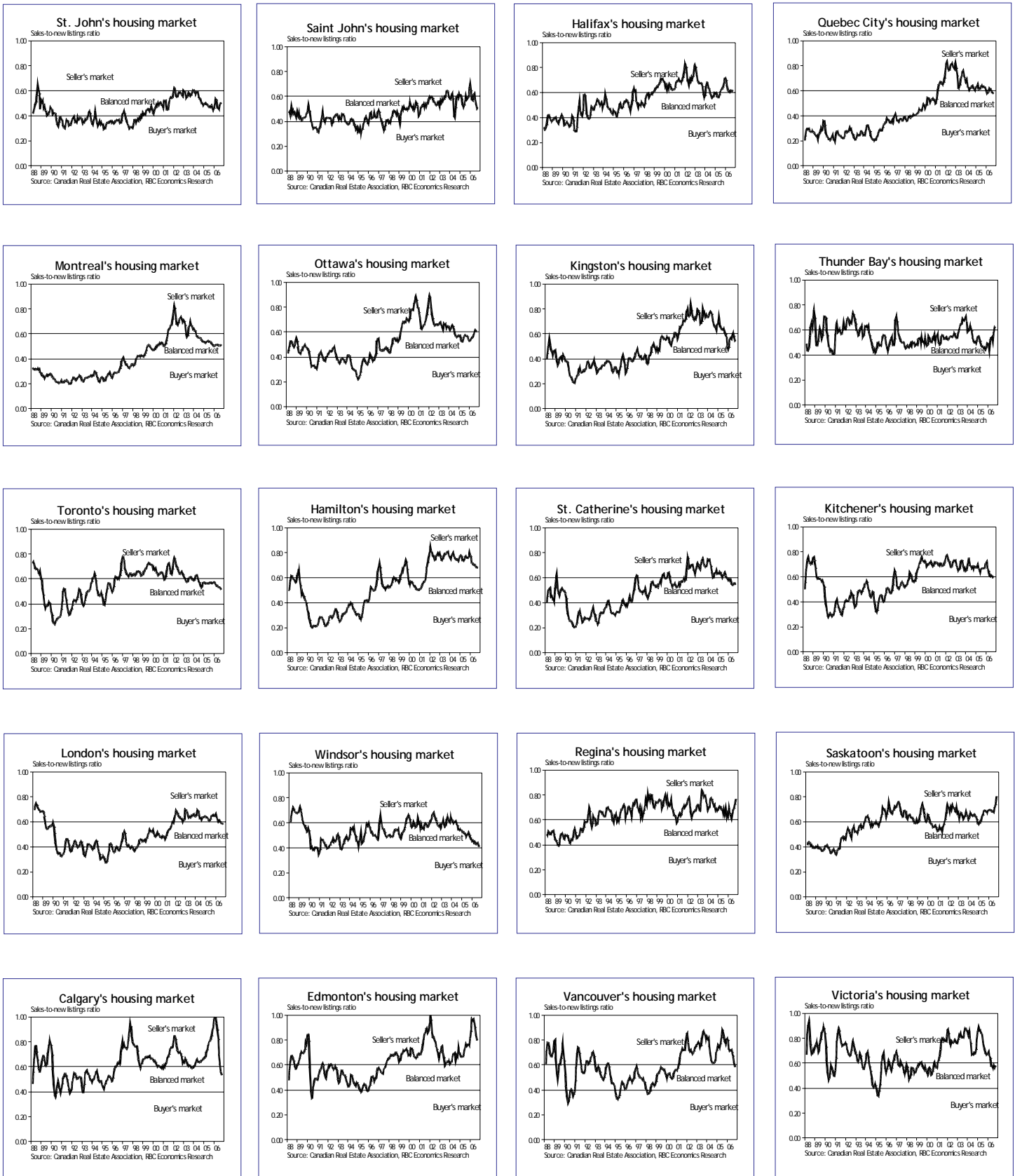
### A sustainable state of balance for many markets:

Many markets have already witnessed their housing fundamentals level off to a more moderate pace of growth that is closer in line with cooling income growth. Housing markets in Ottawa, Saint John, Kingston, Thunder Bay, Toronto and Montreal have already adjusted to a slower, but sustainable, pace. Montreal and Toronto are both right in the middle of balanced territory with sales-to-listings ratios hovering just above the 0.5 mark. Many of these markets have also witnessed a slower pace of annual price growth during the last few months in the low single-digit range. While these cities have already undergone a substantial housing market slowdown, supply and demand fundamentals have also largely cooled off, creating a controlled and fairly modest easing in the housing markets.

While it is difficult to predict a buying opportunity, some markets have exhibited weaker fundamentals. Currently, there are two noticeably softer markets that appear to be bordering on excess supply relative to other markets. St. John's and Windsor have both seen their sales-to-listings ratios moderate fairly aggressively during the last year. Furthermore, these are the only two markets currently tracking flat or declining growth in annual year-to-date house prices. But St. John's market is very different from Windsor's in that its resale market is still fairly active, while Windsor's resale market has been in a steady double-digit decline for more than a year now. However, with a softer period of growth ahead, we anticipate a continued and gradual moderation across many housing markets in the coming year.

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# Resale housing market conditions in Canada's metro cities



Source: Canadian Real Estate Association, RBC Economics Research

