



## CURRENT ANALYSIS

August 11, 2010

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

## Canadian home resale market outlook: a rollercoaster ride but staying on the rails

Canada's housing market's rollercoaster ride continues to generate wild swings as it rushes down at an unnerving speed from the highs that caused vertigo just a few months ago. With the move toward lower, more sustainable levels of activity accelerated by a number of special loops and turns, trepidations are likely to last a little while longer. The Canadian housing market will remain on the rails, however. Once cleared of these loops and turns later this year, it will land on a less stressful pitch.

This report presents our forecast for home resales and prices in Canada and the provinces. Overall, resales are projected to decline modestly in 2010 and remain fairly flat in 2011, although there will be provincial variations. Some provinces (e.g., Alberta and British Columbia) will see a sharper drop this year, while others (Atlantic Canada and Ontario) will post gains. Similarly, next year, some provinces (e.g., Saskatchewan and Alberta) will experience a stronger rebound while others (Ontario and Quebec) a decline. Home prices (on an annual-average basis) are projected to rise quite strongly across the board in 2010, although this is entirely attributable to the gains during the first half of this year. Much weaker increases are forecasted for next year.

### Canada

**Sales** – On a seasonally-adjusted basis, monthly home resales peaked at the end of 2009 and declined significantly during the first half of 2010, down 25% as of June.

Much of this drop and further expected near-term weakness to a large extent the return to more sustainable levels following the surge last year fuelled by the release of pent-up demand.

The late stages of that surge were also fuelled by new buyers jumping into the market to lock in generationally low mortgage rates ahead of an expected increase, as well as to act before the implementation of new, tighter mortgage rules in April and the HST in Ontario and British Columbia (and the 2 percentage point increase of the HST in Nova Scotia) in July. These factors effectively brought forward resale activity that would have materialized at a later point.

Going forward, overall home resales in Canada are expected to continue to weaken in the coming months before stabilizing in the latter part of 2010. Resales are then projected to trend only slightly upward during 2011. This improvement will reflect the positive effect of a modestly improving macroeconomic environment. Specifically, the market will benefit from an expected decline in the unemployment rate and continued growth in the adult population, which will only be partially offset by the anticipated gradual rise in interest rates (that will undermine affordability slightly).

On a full-year basis, we forecast total Canadian home resales to decline 1.7% to 456,800 units in 2010 and stay mostly flat in 2011 (rising marginally by 0.2% to 457,900 units).

**Prices** – The strong price increases that we have seen in the past year are likely to stall in the near term. The softening of demand and a significant increase in the supply of homes available for sale late last year until early this year have brought the market into balance, if becoming a little close to being a buyers' market. We expect prices to stay mostly flat, overall in Canada, throughout the remainder of this year, although there are local markets where some declines are likely to occur. We expect the supply side to adjust to the weaker demand – as it already has with new listings decreasing since May – so the Canadian market will remain balanced going

#### Forecast in brief

Canada, % change	2009	2010f	2011f
Housing resales	7.7	-1.7	0.2
Home prices*	-0.8	8.0	1.4

\*for a detached bungalow

forward. As housing demand picks up next year, prices are projected to rise very modestly.

Given the gains already made so far this year, we forecast prices to rise 8.0% in 2010 on an annual average basis and forecast an increase of only 1.4% in 2011.

## British Columbia

**Sales** – Last year, the B.C. resale market posted one of the more spectacular rebounds in Canadian real estate history, as it more than reversed the 58% peak-to-trough plunge in 2008.

Home resales, however, fell again during the first half of 2010, down 36% on a seasonally-adjusted basis. The level of sales in June was the lowest since 2001 when excluding the 2008 market downturn.

Record high prices (Vancouver housing is by far the most expensive in Canada) have hurt affordability (historically the worst in the country), which weighs on demand. Additionally, the introduction of the HST on July 1 likely contributed to the low home resale levels in recent months as buyers and sellers began to retreat from the market as the odds of a closing date before the deadline diminished.

Low resale levels are expected to persist during most of the second half of this year as the HST and other transitory effects run their courses. We project the pace to pick up very modestly next year once the market is clear of the special factors. Still, poor affordability will limit the extent of any rebound in demand.

We forecast overall home resales to decline by 4.8% to 80,900 units in 2010 and remain virtually flat in 2011, edging up by only 0.1% to 81,000 units.

**Prices** – The lower demand and more plentiful supply have entirely eliminated the earlier tightness in the provincial market (which was almost extreme late last year). If anything, the market is now flirting with conditions more favourable to buyers. Consequently, home prices in British Columbia are likely to come under some downward pressure during the second half of this year. Expensive markets such as Vancouver, where affordability is very poor, could very well see outright price declines; however, the overall B.C. market is unlikely to loosen too much because some sellers will remain on, or move to, the sidelines – new listings are expected to drop. In fact, we anticipate that the market will continue to be roughly balanced until the end of next year.

We forecast home prices in British Columbia to appreciate by almost 13.7% in 2010 (entirely reflecting gains already registered) and by only 1.2% in 2011.

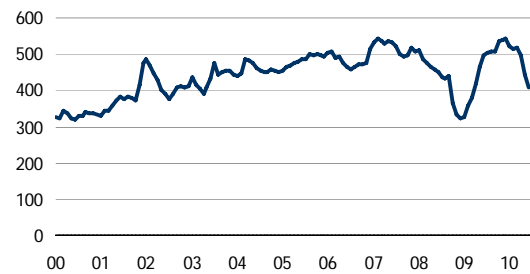
## Alberta

**Sales** – Last year's rebound in Alberta's housing market proved to be temporary, as monthly home resales fell precipitously so far this year, down 34% year-over-year in June.

Except for the lows reached at the bottom of the 2007-2008 market downturn, the pace of resales in June was the weakest since early 2001 – and fully 40% below that which was maintained during 2006 (i.e., before the downturn).

### Canada home resales

Thousands, S.A., annualized



### British Columbia home resales

Thousands, S.A., annualized



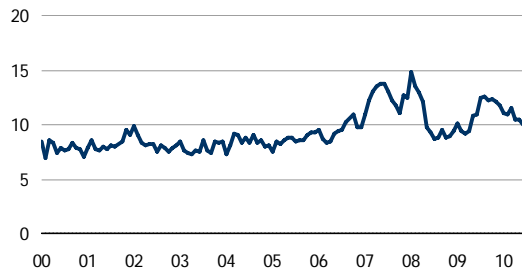
### Alberta home resales

Thousands, S.A., annualized



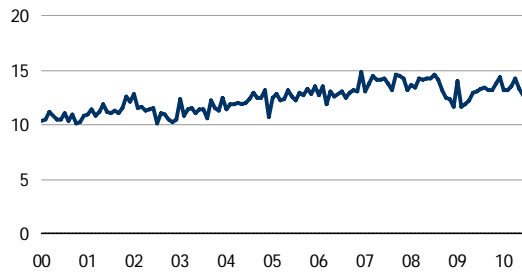
### Saskatchewan home resales

Thousands, S.A., annualized



### Manitoba home resales

Thousands, S.A., annualized



Such weakness amid improving conditions in the provincial economy strikes us as being overdone. We expect that the continued strengthening in the economy (and brightening of employment prospects) will lead to a turnaround in housing market activity later this year, with the amelioration likely to be mild at first but then becoming more pronounced during 2011.

We forecast a drop of 9.9% (to 51,800 units) in home resales for 2010, followed by a 9.1% (to 56,500 units) rebound in 2011.

**Prices** – The sharp drop in demand considerably weakened market conditions in recent months. While supply has begun to adjust modestly downward, it remains plentiful, even a little excessive relative to the current pace of home resales. Consequently, the provincial market has shifted very close to being a buyers' market, which will exert some downward pressure on home prices in the near term. As demand picks up later this year and further downward adjustment is made to supply, however, we expect that a stronger balance will emerge that will lead to moderate price increases during the course of next year.

We project Alberta home prices to rise by 2.6% in 2010 and 0.9% in 2011.

### Saskatchewan

**Sales** – Since last fall, home resales in Saskatchewan have reversed most of the surge in activity of the previous spring and summer, yet recent monthly levels were still in line with those in 2006 (i.e., before the sharp run-up of 2007).

Home resales are expected to stabilize in the coming months, as they find support from generally positive market fundamentals (including the recent acceleration in adult-population growth). Those favourable fundamentals are anticipated to drive up resales fairly briskly next year.

We forecast overall home resales in Saskatchewan to decline by 5.4% to 10,500 units in 2010 and to increase meaningfully by 9.5% to 11,500 units in 2011.

**Prices** – After being marked by a fair scarcity of homes available for sale during the second half of 2009 and the early part of this year, the provincial market has returned to a balanced position more recently, where it is expected to remain going forward. This situation will cause gains in home prices to moderate substantially in the second half of this year. The anticipated strengthening of housing demand next year will likely apply some upward pressure on prices.

Our forecast projects Saskatchewan home prices to increase by 5.6% in 2010 and by 2.0% in 2011.

### Manitoba

**Sales** – Activity in the Manitoba housing market has been fairly volatile since the start of this year, although the downside forces have mostly dominated with notable declines in May and June. June home resales were down almost 12% from December. Still, recent levels remained generally healthy, comparable to those in 2005 and 2006 (both of which were good years for the Manitoba market).

Forces acting on the demand side of the housing market are expected to come into balance in the coming months and stabilize the pace of home

resales. Sustained improvement in Manitoba's job market and modestly rising population growth are expected to drive resales modestly higher next year.

On an annual basis, we forecast home resales to remain flat in 2010 at 13,100 units and grow by 3.1% in 2011 to 13,500 units.

**Prices** – Manitoba home prices are expected to level off temporarily following the strong gains posted in the past year, which resulted from tight market conditions. With conditions now balanced, upward pressure on prices has largely disappeared; be that as it may, that pressure will partly return next year as housing demand improves.

We forecast home prices to rise by 9.1% in 2010 and 2.7% in 2011.

## Ontario

**Sales** – The Ontario market is continuing its wild ride. After reaching an all-time high in March, resale activity slowed significantly during spring and early summer, falling 27% by June. The HST effect, although difficult to quantify, has probably played a non-negligible role in this decline, as it did in on the upside when activity was super-charged earlier this year.

The Ontario market will likely see a great deal of volatility in the coming months, as it faces the 'payback' effect of the earlier gains related to buyers advancing their purchases to 'beat' the HST, new mortgage rules and anticipated rises in mortgage rates.

Consequently, we expect generally weak resales in the second half of 2010, with further monthly declines likely in the near term.

The payback effect will likely dissipate by year end, after which demand will better reflect the mostly positive factors (including a strengthening economy, declining unemployment and rising family income) supporting its underlying trend. Monthly resales are thus expected to trend higher next year, although modestly so and from a fairly low base.

On an annual basis, we project home resales in Ontario to remain quite stagnant this year and next, rising only 0.9% in 2010 to 197,600 units and declining 1.8% in 2011 to 194,100 units.

**Prices** – Pricing momentum is decelerating rapidly in Ontario, because much of the steam has run out of the market by now. With demand slowing down and the surge in new listings earlier this year having boosted the supply of homes available for sale, buyers presently have plenty of choice before them and, as a result, are gaining back some bargaining power. In our view, this will severely limit home price increases in the near term. That being said, the likelihood of outright declines is generally low because the market is expected to remain reasonably balanced. Any further drop in demand will be matched by reductions in supply (i.e., listings).

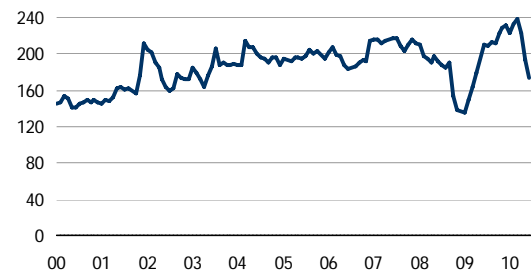
The outlook for Ontario home prices calls for increases of 6.9% in 2010 and 1.5% in 2011.

## Quebec

**Sales** – The Quebec housing market is shifting to a more sustainable path after activity reached an all-time high this past winter. Monthly

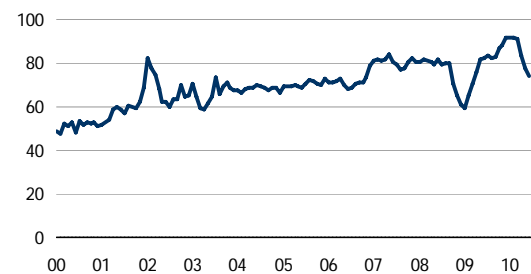
### Ontario home resales

Thousands, S.A., annualized



### Quebec home resales

Thousands, S.A., annualized



home resales are down almost 19% since March, yet this should not be cause for concern because the May-June levels are still very much in line with the solid trends that prevailed earlier this decade.

Given the very high volume of activity last year and earlier this year, the market is likely still 'overbought' to some extent at this point, leading to further declines in the near term with resales undershooting their underlying trends somewhat. Nevertheless, demand is expected to pick up by year end, setting monthly home resales on a slightly upward course next year.

Such a pattern will cause annual home resales in Quebec to edge down by 0.5% in 2010 to 78,700 units and decline further by 1.8% in 2011 to 77,300 units.

**Prices** – The shift to a more sustainable path will also affect pricing. The strong increases in property values in the past year are expected to be replaced by considerably smaller gains in the period ahead. The slowing of home resales has greatly relaxed the earlier tightness in the provincial market, and balanced conditions are expected until the end of 2011. This situation will support modest but steady home price appreciation. Nevertheless, the deterioration of affordability in local markets such as Montreal and Quebec City raises the odds of temporary price declines in some areas of the province.

We forecast Quebec overall home prices to increase by 7.7% in 2010 and 1.5% in 2011.

## Atlantic Canada

**Sales** – Housing market activity remains fairly robust so far this year in Atlantic Canada, albeit slowing a little in recent months. After staging a strong recovery last year and earlier this year from the market downturn in 2008, home resales have eased since spring, declining 11% between March and June. This decline brought levels back within the average range that prevailed from 2005 to 2006 when the market was running at a healthy clip.

Home resales in the region are expected to stabilize in the coming months, although the 2 percentage point increase in the HST on July 1 in Nova Scotia is likely to exert some down force on activity in that province.

Overall, resales in Atlantic Canada are expected to edge higher late this year and continue to show modest gains thereafter, as demand strengthens amid sustained economic growth in the region and the HST effect subsides.

Our forecast for annual home resales in Atlantic Canada calls for an increase of 5.7% to 24,100 units in 2010 and no growth in 2011.

**Prices** – Compared with the wide swings seen in some of the other provinces, home prices in Atlantic Canada remained well behaved in recent years. Such a fairly steady course will likely be maintained going forward. Market conditions are expected to stay in balance – as they have in recent years – which will continue to set the stage for moderate price increases.

We forecast home prices in Atlantic Canada to rise by 3.7% in 2010 and 2.7% in 2011.

## Atlantic Canada home resales

Thousands, S.A., annualized



## Housing resales forecast

	2007	2008	2009	2010f	2011f
Canada*	520,500	431,300	464,600	456,800	457,900
	<i>7.8</i>	<i>-17.1</i>	<i>7.7</i>	<i>-1.7</i>	<i>0.2</i>
British Columbia	102,800	68,900	85,000	80,900	81,000
	<i>6.3</i>	<i>-33.0</i>	<i>23.4</i>	<i>-4.8</i>	<i>0.1</i>
Alberta	71,000	56,000	57,500	51,800	56,500
	<i>-4.1</i>	<i>-21.1</i>	<i>2.7</i>	<i>-9.9</i>	<i>9.1</i>
Saskatchewan	12,500	10,500	11,100	10,500	11,500
	<i>31.6</i>	<i>-16.0</i>	<i>5.7</i>	<i>-5.4</i>	<i>9.5</i>
Manitoba	13,900	13,500	13,100	13,100	13,500
	<i>6.9</i>	<i>-2.9</i>	<i>-3.0</i>	<i>0.0</i>	<i>3.1</i>
Ontario	213,400	181,000	195,800	197,600	194,100
	<i>9.5</i>	<i>-15.2</i>	<i>8.2</i>	<i>0.9</i>	<i>-1.8</i>
Quebec	80,600	76,800	79,100	78,700	77,300
	<i>12.6</i>	<i>-4.7</i>	<i>3.0</i>	<i>-0.5</i>	<i>-1.8</i>
Atlantic Canada	26,300	24,500	22,800	24,100	24,100
	<i>14.8</i>	<i>-6.8</i>	<i>-6.9</i>	<i>5.7</i>	<i>0.0</i>

\* Excludes sales in the Territories.

*Annual percent changes are in italics.*

Source: Canadian Real Estate Association, RBC Economics Research

## Home price forecast – annual average value of a detached bungalow

	2007	2008	2009	2010f	2011f
Canada*	289,800	304,000	301,600	325,600	330,300
	<i>11.5</i>	<i>4.9</i>	<i>-0.8</i>	<i>8.0</i>	<i>1.4</i>
British Columbia	475,700	508,400	495,100	563,100	569,700
	<i>11.8</i>	<i>6.9</i>	<i>-2.6</i>	<i>13.7</i>	<i>1.2</i>
Alberta	376,200	354,100	330,200	338,800	341,800
	<i>30.4</i>	<i>-5.9</i>	<i>-6.7</i>	<i>2.6</i>	<i>0.9</i>
Saskatchewan	239,600	298,700	295,700	312,400	318,700
	<i>45.8</i>	<i>24.7</i>	<i>-1.0</i>	<i>5.6</i>	<i>2.0</i>
Manitoba	201,600	217,200	227,000	247,700	254,500
	<i>7.6</i>	<i>7.7</i>	<i>4.5</i>	<i>9.1</i>	<i>2.7</i>
Ontario	301,600	317,700	314,800	336,400	341,300
	<i>6.6</i>	<i>5.3</i>	<i>-0.9</i>	<i>6.9</i>	<i>1.5</i>
Quebec	183,400	193,200	201,200	216,600	219,800
	<i>6.3</i>	<i>5.3</i>	<i>4.1</i>	<i>7.7</i>	<i>1.5</i>
Atlantic Canada	167,300	179,900	187,800	194,800	200,100
	<i>9.8</i>	<i>7.5</i>	<i>4.4</i>	<i>3.7</i>	<i>2.7</i>

\* Weighted average, using provincial population as weights.

*Annual percent changes are in italics.*

Source: Royal LePage, 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.