

February 7, 2023

New year, same calm in Canada's housing markets

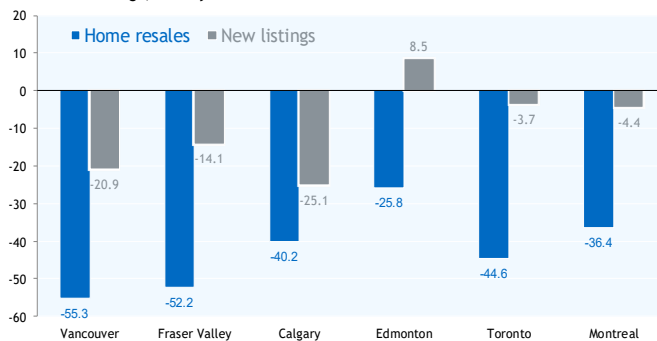
For the most part, Canada's housing markets started 2023 the same way they ended 2022: quietly. Early results for January from local real estate boards generally show persistent weak activity and price declines. Calgary remains among the few exceptions where the number of property sold is still solid—though down nonetheless from sky-high levels a year ago. Homebuyers across Canada are clearly on the defensive. The Bank of Canada's aggressive rate hike campaign since March 2022 has been a game-changer, sending many to the sidelines (no longer qualifying for a mortgage) and significantly shrinking the budget of others. High-priced markets and areas that experienced tremendous run-ups earlier in the pandemic are seeing the most dramatic downswings. Home resales have plummeted by at least 45% in Vancouver, Toronto and their surrounding regions over the past year. Price drops have also been largest in these markets, exceeding 15% in some cases.

That said, the correction appears to be broadly easing. Monthly rates of decline for home resales and prices have slowed in Ontario (including Toronto), British Columbia (including Vancouver) and elsewhere in recent months. This development along with our expectation that the Bank of Canada has completed its rate hike campaign point toward a cyclical bottom around spring or summer—though the timing may vary from market to market. The recovery that will follow, however, is poised to be very gradual at first. We expect the massive increase in interest rates will continue to hold back activity and compress purchasing budgets for some time.

Major market highlights: January 2023

Market activity

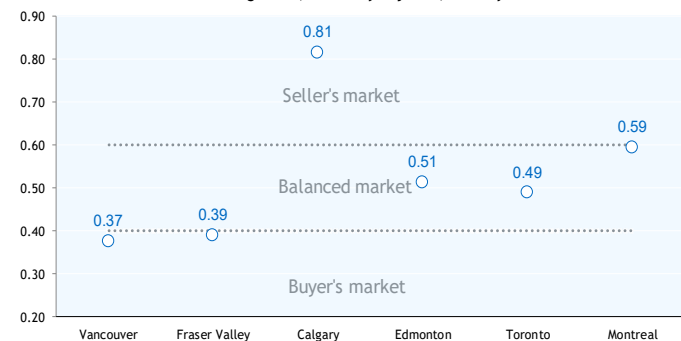
Annual % change, January 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Demand-supply conditions

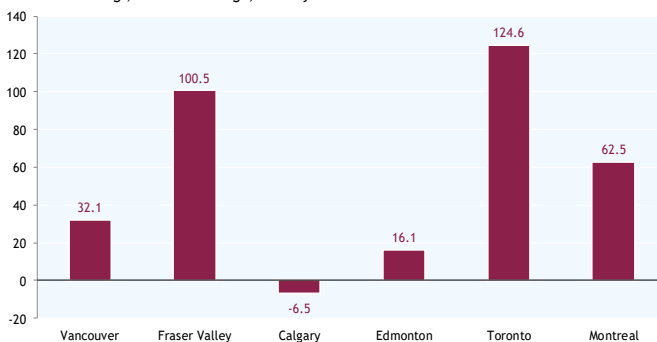
Estimated sales-to-new listings ratio, seasonally-adjusted, January 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Inventories

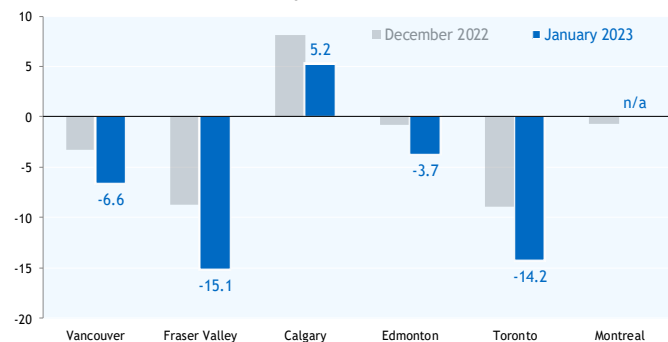
Active listings, annual % change, January 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Home prices

MLS Home Price Index, annual % change



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

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Toronto area—Inching closer to a cyclical bottom

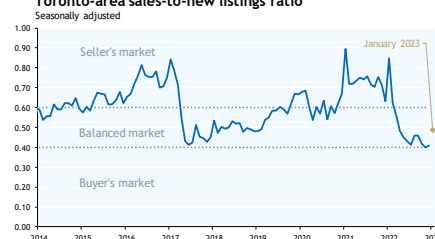
The market has settled (way) down after a two year-long frenzy. Resale activity is the quietest it's been in 14 years (excluding the lockdown period), and buyers are progressively rolling back some of the earlier outsized price appreciation. The slide in activity has slowed down materially over the past few months though, suggesting the cyclical bottom may be near. Home resales fell 1% m/m in January, in line with the average rate of decline in the prior three months. The last four months marked a sharp deceleration from the 8% average monthly drop recorded between March and September last year. But we think the price correction has a little longer to run. The MLS HPI has declined for 11 consecutive months—including a 0.2% m/m drop in January—yet it has so far only reversed less than a third of its huge 57% gain in the first two years of the pandemic. Affordability remains excessively stretched for most buyers. In the face of higher interest rates, we expect buyers to continue looking for more affordable options and drive down prices to fit their constrained budget.

Toronto-area home resales



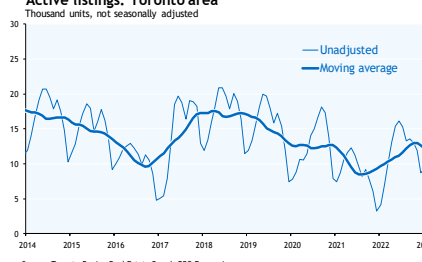
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Toronto-area sales-to-new listings ratio



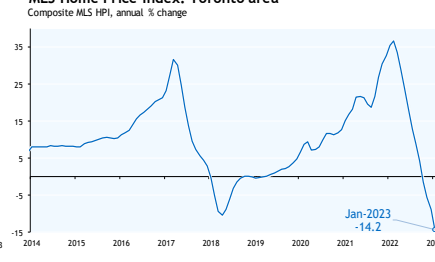
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Active listings: Toronto area



Source: Toronto Region Real Estate Board, RBC Economics

MLS Home Price Index: Toronto area



Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Montreal area—Correction isn't letting up yet

The slowdown was modest at first but has picked up noticeably since late-summer. January resales were the softest since 2009, falling an estimated 11% from December on a seasonally-adjusted basis. Clearly the market correction is showing few signs of letting up at this stage. Median prices are down 10% for condos and 14% for single-family homes since the April peak—slipping a further 1.3% and 2% m/m in January, respectively. We expect the price erosion to continue in the near term. Inventories, while still historically low, are climbing, and demand-supply conditions no longer favour sellers. The sharp deterioration in affordability over the past 12-18 months keeps buyers on edge. A weakening economy may also be on their mind. It will likely take a few more months for confidence to rebuild and market trends to stabilize.

Montreal-area home resales



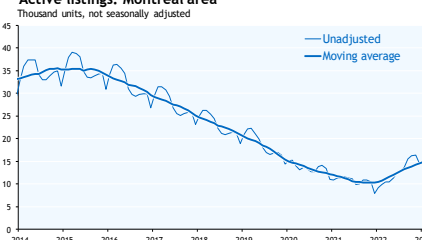
Source: QPAREB/CREA, RBC Economics

Montreal-area sales-to-new listings ratio



Source: QPAREB/CREA, RBC Economics

Active listings: Montreal area



Source: QPAREB via Centris, RBC Economics

MLS Home Price Index: Montreal area



Source: QPAREB/CREA, RBC Economics



Vancouver area—Buyers wring price concessions

Not much is happening in the Vancouver market these days other than buyers successfully extracting price concessions from sellers. Prices are on a 10-month declining streak as resale activity nears its lowest point since the global financial crisis (excluding the lockdown period). A sharp increase in homes put up for sale didn't get things going in January. On the contrary, we estimate resales slumped another 7% m/m on a seasonally adjusted basis, adding up to an eye-popping 55% slide over the past year. The rise in new listings is giving buyers an even stronger hand, which we think will keep driving prices down in the coming months—possibly at an accelerating rate if inventories build up. Since the March 2022 peak, the MLS HPI is down 12% (not seasonally adjusted). Further declines will be needed to ease extremely poor affordability conditions in the area. Single-detached homes (the least affordable option) are most at risk of losing further value in the period ahead. We expect condo prices to be supported by relatively stronger demand.

Vancouver-area home resales
Thousand units, seasonally adjusted annual rate



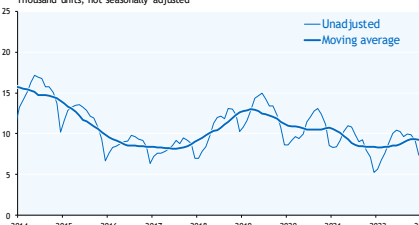
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Vancouver-area sales-to-new listings ratio
Seasonally adjusted



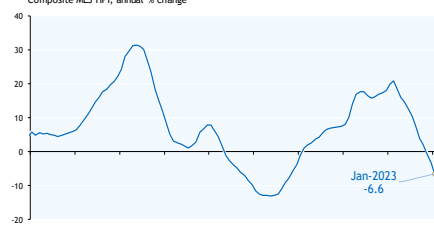
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Active listings: Metro Vancouver
Thousand units, not seasonally adjusted



Source: Real Estate Board of Greater Vancouver, RBC Economics

MLS Home Price Index: Vancouver area
Composite MLS HPI, annual % change

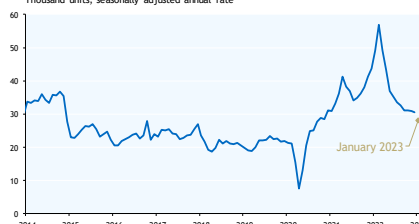


Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Calgary—Landing softly

The market is in soft landing mode with activity and prices gently drifting lower while demand-supply conditions remain remarkably tight. In fact, Calgary stands out as the tightest market in Western Canada at this juncture. Though we estimate home resales fell for the 11th-straight month in January (down 8% m/m), they're still brisk, hovering some 32% above pre-pandemic levels. A sharp drop in new listings may have contributed to the decline last month, making it harder for buyers to find their dream home. Higher interest rates also squeeze buyers' budget hard, which is sustaining downward pressure on property values despite low inventories. The MLS HPI remains above year-ago levels but probably not for much longer. The index has trended (very) slightly lower since May 2022 and we expect this to continue in the near term.

Calgary home resales
Thousand units, seasonally adjusted annual rate



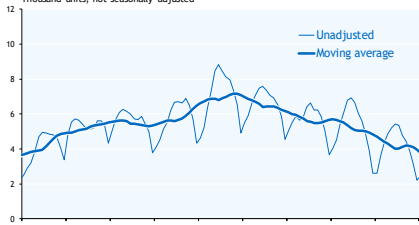
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics

Calgary sales-to-new listings ratio
Seasonally adjusted



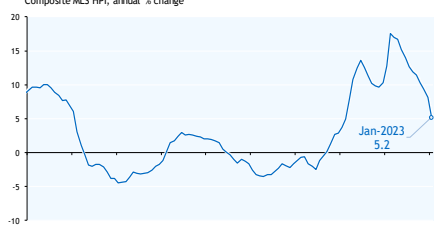
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics

Active listings: Calgary
Thousand units, not seasonally adjusted



Source: Calgary Real Estate Board, RBC Economics

MLS Home Price Index: Calgary
Composite MLS HPI, annual % change



Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics

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