

June 3, 2021

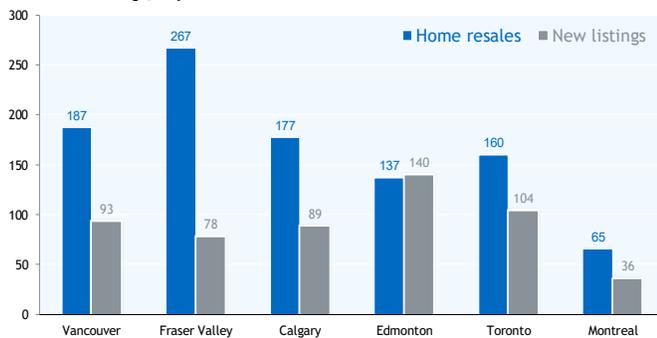
## Broad decline in housing activity didn't slow price gains in May

The return to lower, more sustainable levels of activity continued last month across major Canadian markets. Despite showing eye-catching increases from a year ago—entirely reflecting depressed comparison points in May 2020—our read of early reports from local real estate boards is home resales fell broadly from April to May. We estimate declines ranged between 2% (Fraser Valley) and 18% (Calgary). But those looking for signs of easing price pressure will be disappointed. For the most part, low seller turnout was the main cause for the moderation, not cooling demand. This kept demand-supply conditions generally tight, sustaining further price acceleration. The MLS Home Price Index surged more than 23% y/y in the Fraser Valley in May, and gains in the Toronto area (at nearly 19% y/y) and Vancouver area (at 14%) weren't far behind. Even Calgary saw its index jump double-digits for the first time in more than six years. We expect intense upward price pressure to persist nationwide in the near term. Further moderation in activity will not be sufficient to rebalance markets, especially if it's caused by a dearth of homes for sale. We'll also need more sellers to step in. And higher prices could well be the biggest catalyst for that.

### Major market highlights: May 2021

#### Market activity

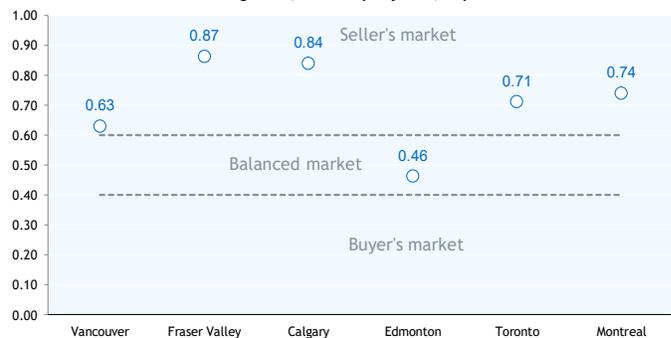
Annual % change, May 2021



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

#### Demand-supply conditions

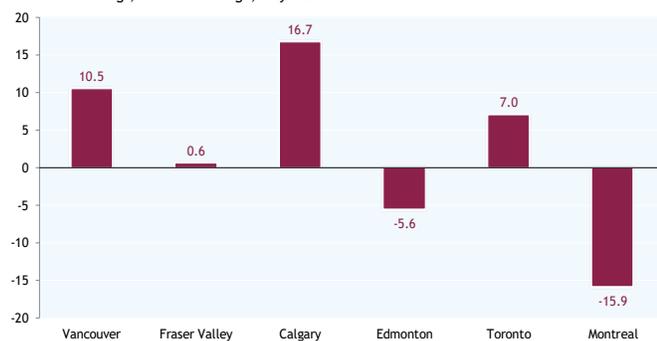
Estimated sales-to-new listings ratio, seasonally-adjusted, May 2021



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

#### Inventories

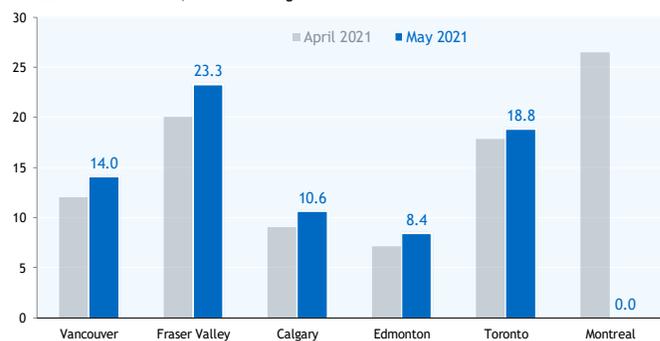
Active listings, annual % change, May 2021



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

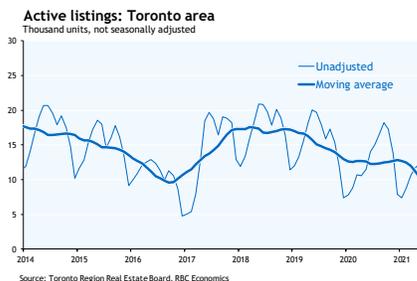
Robert Hogue

Senior Economist | 416-974-6192 | robert.hogue@rbc.com



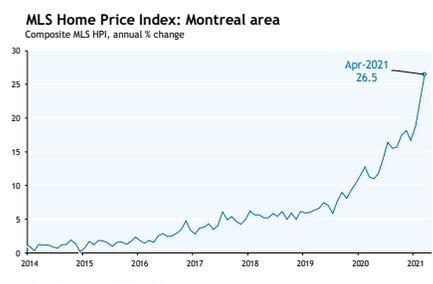
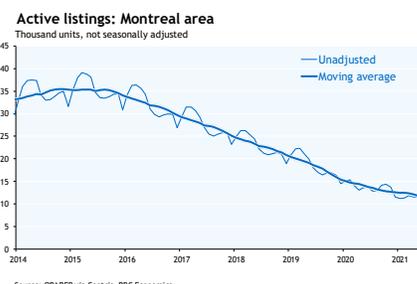
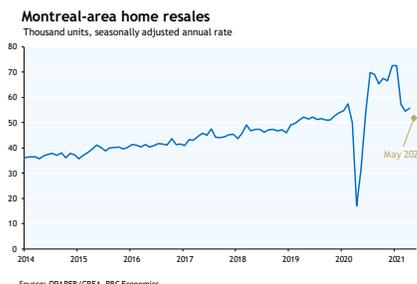
## Toronto area—A second step down from the top of the stairs

May marked the second-straight month activity moderated in the Toronto area. Home resales fell nearly 9% from April, according to preliminary figures from the Toronto Regional Real Estate Board. Don't mistake this for a sign of rapid cooling demand, though. Activity is still far above pre-pandemic levels. And an even sharper drop in new listings (down 17% m/m, by our estimate) likely accounts for much of the moderation. Bidding wars, while perhaps involving fewer participants, were still rampant, keeping sellers in a very strong bargaining position. In short, conditions for strong price gains remained firmly in place. The region's MLS HPI accelerated to 18.8% y/y, the strongest rate of increase since mid-2017. Single-family homes still attract most of the heat (the segment's MLS HPI was up 25.1% y/y). Renewed demand for condo apartments, however, is increasingly driving up prices in that category as well (up 6.6% y/y).



## Montreal area—Still in a holding pattern

The picture hasn't changed that much for the Montreal-area market over the last three months. While we estimate home resales fell 7% m/m in May, it was met by a similar drop in new listings. This left demand-supply conditions unchanged—still very tight and heavily favouring sellers. Unsurprisingly, property values have escalated further. Median prices were up more than 30% y/y in virtually all segments and parts of the region. The main exception has been condo apartments on the Island of Montreal, which are up 'only' 14% y/y. We expect the tightness in the market to persist in the near term.

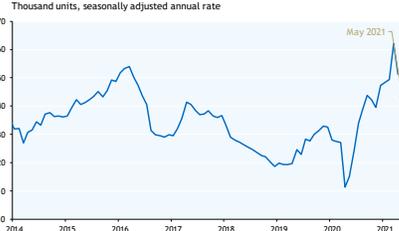




## Vancouver area—Better market balance in sight

There's been further progress made toward re-balancing the market during May. We estimate home resales fell 16% m/m, outpacing a 9% decline in new listings. This brought the sales-to-new listings ratio—a reliable gauge of demand-supply conditions—closer to a level that historically has been associated with price stability. For now, sellers are still in the driver's seat. And this translated into faster price increases. The Vancouver-area MLS HPI was up 14.0% y/y last month, the strongest pace in three years. The index for single-family homes increased a strong 22.8%, or nearly three times the rate of 7.9% for condo apartments. That said, condo prices have significantly picked up pace since last fall. We expect price pressure to ease later this year.

**Vancouver-area home resales**



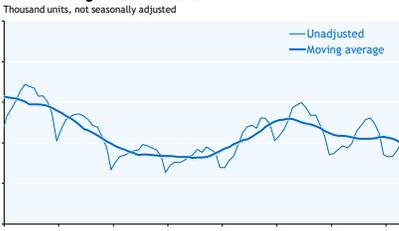
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

**Vancouver-area sales-to-new listings ratio**



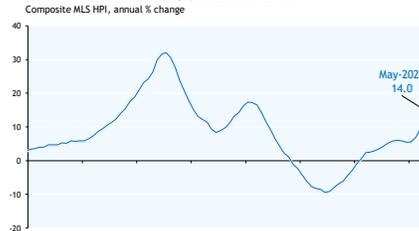
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

**Active listings: Metro Vancouver**



Source: Real Estate Board of Greater Vancouver, RBC Economics

**MLS Home Price Index: Vancouver area**

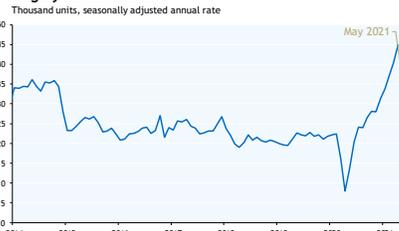


Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

## Calgary—Pace of activity slows down but prices going up

After bucking the general moderating trend in April, Calgary's market activity eased in May. We estimate home resales fell 18% m/m. This reversed just a small part of the historic advances since last summer, leaving activity still historically strong in the area. Demand-supply conditions in fact tightened further due to an even larger drop in new listings and raised the heat on prices. Calgary's MLS HPI rose 10.6% y/y in May, the strongest rate of increase in more than six years. We expect further gains in the near term.

**Calgary home resales**



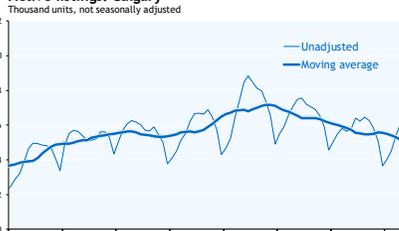
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics

**Calgary sales-to-new listings ratio**



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

**Active listings: Calgary**



Source: Calgary Real Estate Board, RBC Economics

**MLS Home Price Index: Calgary**



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

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