



September 7, 2023

Housing market tensions continuing to ease across most of Canada

Canada's housing markets for the most part are seeing more balanced conditions as the fall season is about to get underway. The Bank of Canada's interest rate hikes this summer significantly cooled what had been a surprisingly strong rally in the spring, and more sellers have stepped back into the fray in recent months after retreating earlier this year. Market results for August from local real estate boards show demand-supply conditions continuing to ease significantly in Vancouver, the Fraser Valley, Toronto and Hamilton. This was also the case in Calgary and Edmonton but to a much lesser degree, and with the situation in Calgary remaining exceptionally firm.

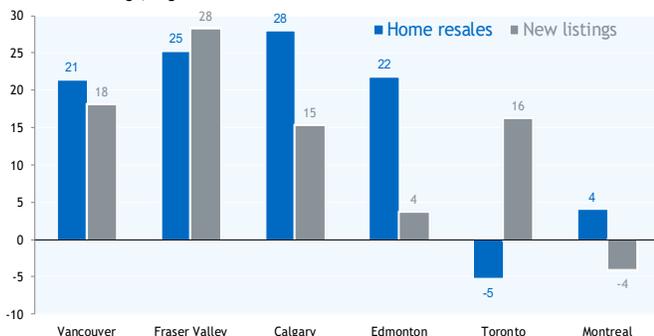
Consistent with rebalancing trends, there's growing evidence this spring's price rally is running out of steam in Ontario and BC. Local boards reported small month-to-month declines in the MLS Home Price Index in Vancouver, the Fraser Valley and Toronto. Property values in Calgary still appreciated at a brisk pace, though—underscoring this market's heat emanating from a large influx of migrants and thriving provincial economy.

We think the fall season may look a lot like August with buyers staying on the defensive in many parts of Canada despite more choice becoming available to them. High interest rates, ongoing affordability issues and a looming recession are poised to pose major obstacles. Any material acceleration in the recovery will have to wait until interest rates come down in 2024.

Major market highlights: August 2023

Market activity

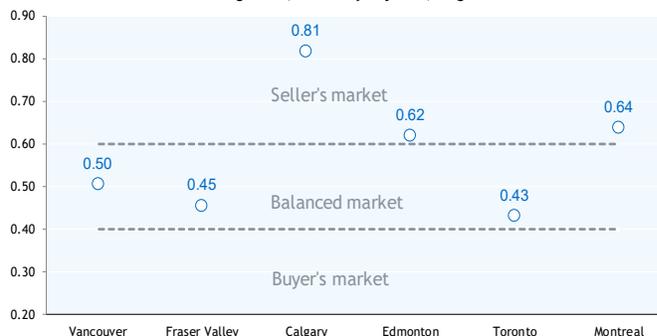
Annual % change, August 2023



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

Demand-supply conditions

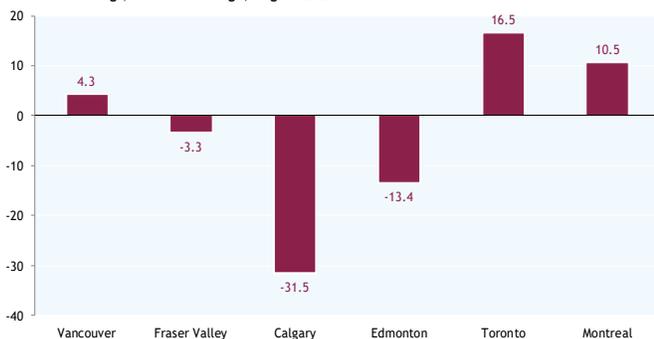
Estimated sales-to-new listings ratio, seasonally-adjusted, August 2023



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

Inventories

Active listings, annual % change, August 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

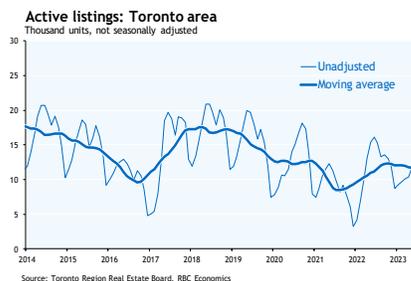
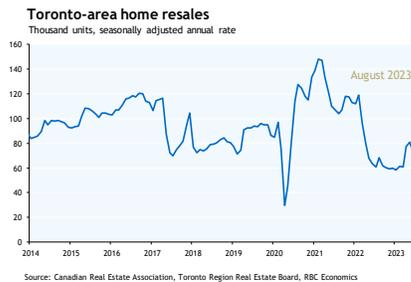
Robert Hogue

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



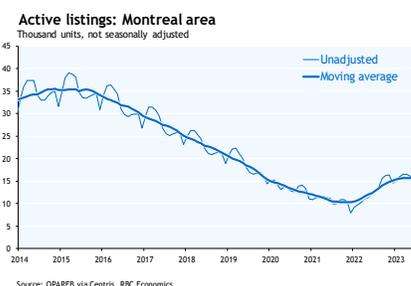
Toronto area—Quiet summer

The action got even slower in August with home resales slipping a further 1.0% m/m on a seasonally-adjusted basis. This summer's lull rolled back almost two-thirds of the sharp rebound this spring. What's restraining the market has less and less to do with a lack of purchasing options. New listings and inventories having been rising noticeably fast over the past five months—including in August. Rather, it increasingly reflects sagging buyers' sentiment in the face of high interest rates, extremely poor affordability and a softening economy. Demand-supply conditions have quickly rebalanced after unexpectedly firming this spring. The sales-to-new listings ratio is in fact the closest its been to buyers' market territory since January. This swing is now weighing on prices, which edged lower for the first time since February. The aggregate MLS HPI for the Greater Toronto Area dipped 0.1% last month with both the single-detached and condo segments coming down. We expect activity and prices to remain mostly stagnant in the near term.



Montreal area—Prices still get modest but uneven support

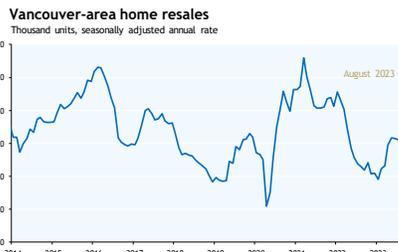
A growing supply of homes for sale continues to boost transactions flows in the area. New listings increased sequentially for the fourth time in the last five months in August—up more than 10% (seasonally adjusted) by our own estimate. This helped extent the uptrend in home resales, which now exceed year ago levels by 3.8%. Despite more sellers coming to market, demand-supply conditions remain a little tight at this stage. This provides modest but uneven support for property values. In August, the median price for a single-detached home gained 1.1% from July, whereas it edged lower by 0.5% for a condo apartment. Properties situated on the Island of Montreal generally recorded larger appreciation relative to Laval, and the North and South Shores. We expect further measured appreciation in the near term.





Vancouver area—Cautious mood dampens activity

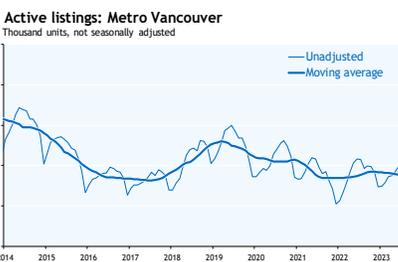
The spring rally has run its course and a more cautious mood has taken the market over. Buyers have pulled back this summer, especially in August when we estimate resales fell more than 6% m/m on a seasonally-adjusted basis. Clearly the Bank of Canada's back-to-back rate hikes in June and July unsettled many prospective buyers. Successive increases in the number of homes put up for sale since April—which reached a 15-month high in August—should have fired them up instead by offering opportunities to unlock pent-up demand that built during the year-long market correction. The net result is a more balanced market. And with this spring's tightness gone, prices are losing support. Vancouver's aggregate MLS HPI slipped slightly between July and August for the first time since March. We think the more cautious tone will keep prices on a flat trajectory in the period ahead.



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



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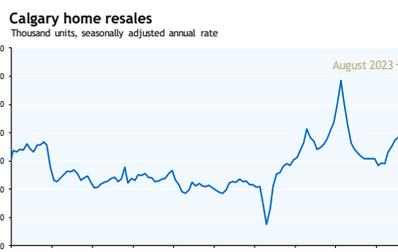
Source: Real Estate Board of Greater Vancouver, RBC Economics



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Calgary— Canada's hottest market?

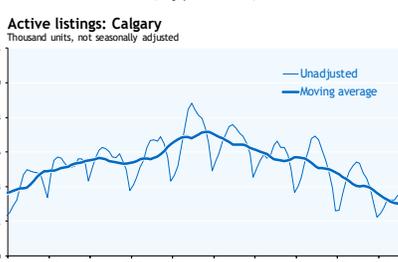
The story is still one of strength for the Calgary market. We estimate August home resales were up a further 10% m/m (seasonally-adjusted), following solid increases in the prior four months. Growing supply has facilitated those gains but barely made a dent in easing the market tightness. Inventories remain exceptionally low at this stage amid supercharged demand and explosive population growth. This makes for a highly competitive environment for buyers. Property values maintain strong upward momentum as a result. Calgary aggregate MLS HPI rose another 1.0% m/m in August and up 7.9% from a year ago—the most significant advance among major markets in Canada. We see little that will cool down the market materially in the short term.



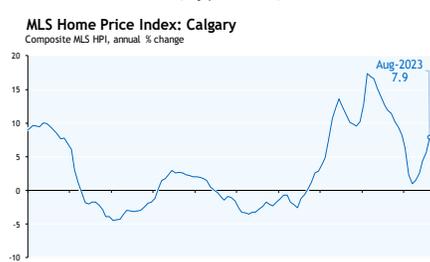
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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