Focus on Canadian housing

November 6, 2023

Fall market stuck in a low gear across Canada

High interest rates are exerting a growing toll on Canada's housing markets. Early results from local real estate boards for October showed the broad softening of transaction activity continuing—as demand cooled in the face of elevated ownership costs. The strong influx of sellers seen in previous months paused in several markets (including Toronto, Vancouver and the Fraser Valley) but the trend still generally points upwards. Growing inventories—except in the Prairies—provide further evidence that the few buyers out there have more options to choose from.

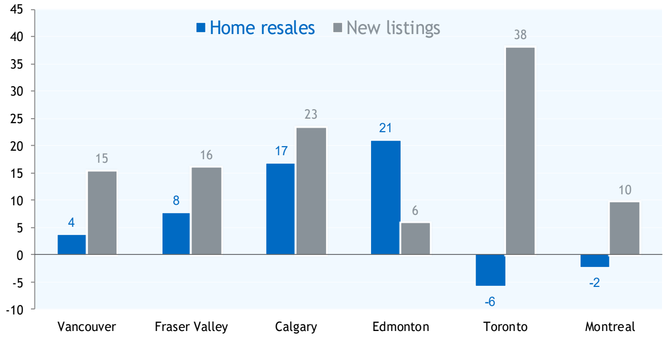
In fact, the rebalancing of market conditions have strengthened buyers' hand when putting in purchase offers. This is especially the case in Ontario and British Columbia where prices are now softening. In Toronto, the MLS Home Price Index has declined m/m in the past three months. In Vancouver and the Fraser Valley, the index fell sequentially in October for the first time since March. Montreal also shows evidence of weakening property values.

Despite showing some cracks in October, Calgary continues to stand out by its vigour. Price momentum remain positive at this stage.

We expect these trends to persist through the remainder of the fall season. We think buyers will stay 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.

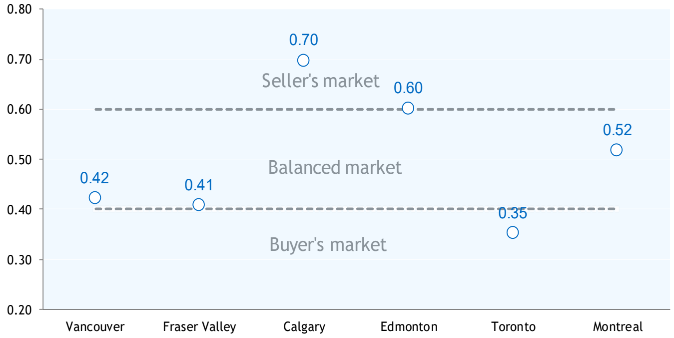
Major market highlights: October 2023

Market activity
Annual % change, October 2023



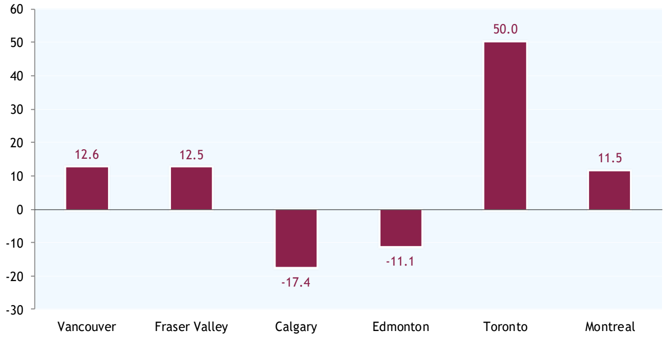
Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Demand-supply conditions
Estimated sales-to-new listings ratio, seasonally-adjusted, October 2023



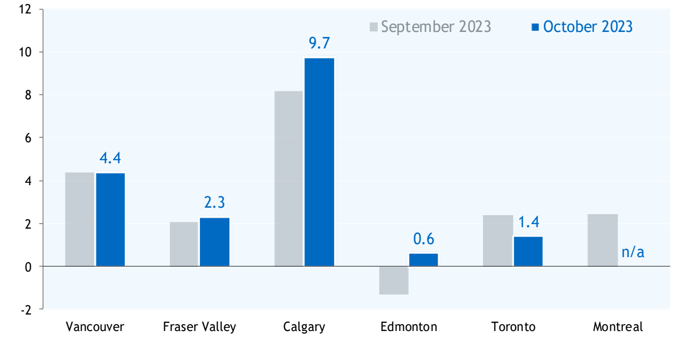
Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Inventories
Active listings, annual % change, October 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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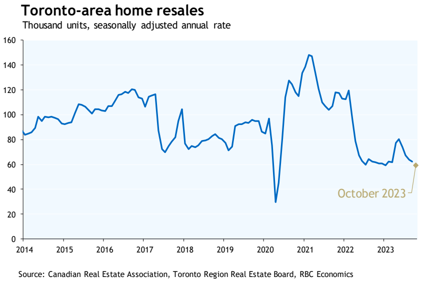
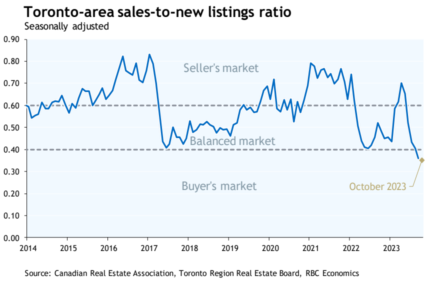
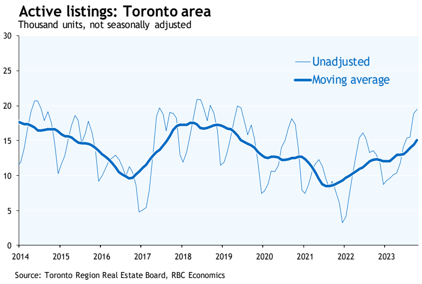
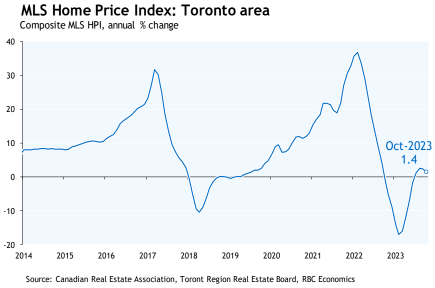
Toronto area—Buyers extract price concessions in slow market

Last month was the quietest October in almost a quarter of a century. Home resales fell for a fifth-straight time, down 5% from September to the lowest point (4,867 units, seasonally adjusted) since October 2000. The picture of buyers in full retreat may be turning off potential sellers. After six consecutive increases, new listings dipped 2.9% m/m in October. That didn't prevent demand-supply conditions from softening further, though. In fact, they became even more favourable to buyers who now hold the upper hand in price negotiations. And sure enough, buyers are wasting no time in exercising that power. Toronto's MLS HPI has dropped m/m in the past three months. October's decline (-1.7%) was the deepest one of them. So far, the index has reversed just over 40% of the increase earlier this spring and summer. But there's likely more to come as buyers are poised to maintain their strong bargaining position while their budget remains heavily constrained by high interest rates and extremely poor affordability conditions.



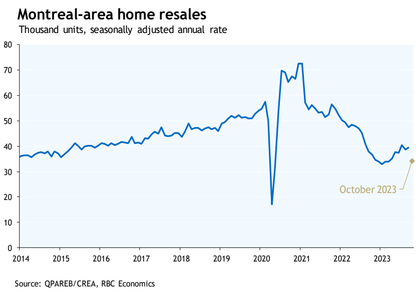


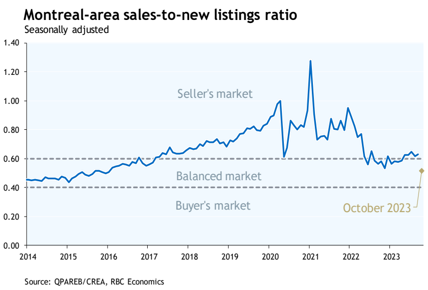


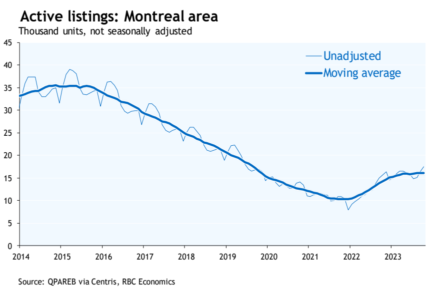


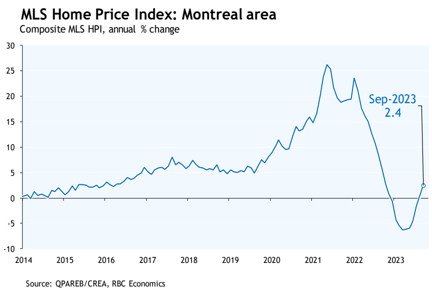
Montreal area—Harsh reality catching up with the market

The resiliency of the market over the past few months against the broad softening trend is now being tested. We estimate home resales fell more than 10% m/m (seasonally adjusted) last month. The last time activity was this soft in October was way back in 2001. The balance between demand and supply has loosened as a result, putting home prices under downward pressure. The median price for a single-family home in the area edged 0.7% lower m/m in October and 3.0% for a condo apartment (though following a 2.3% increase in September). With inventories now rebuilding—new listings are up m/m in seven out of 10 months so far this year, including in October—and the likelihood buyers will remain on the defensive into next year, we see further downside for prices in the coming months.



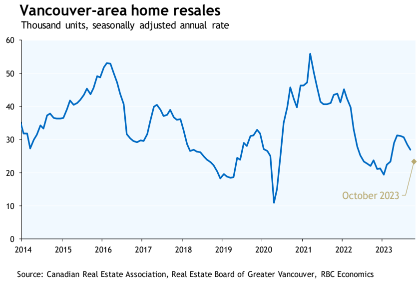


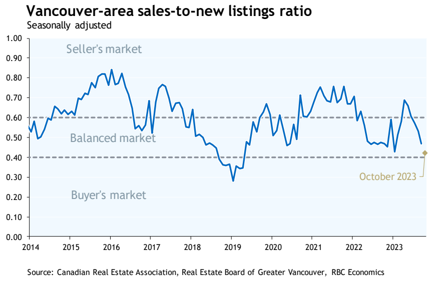


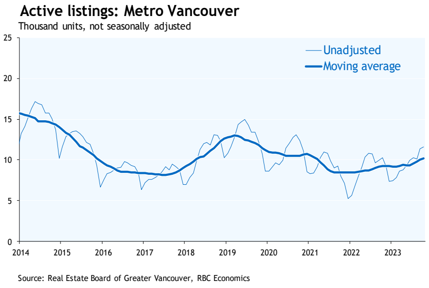


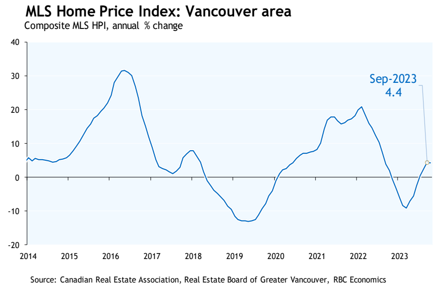
Vancouver area — Lack of affordability curbs buyer appetite

The weakening trend in Vancouver continued into October. Plunging more than 10% m/m (by our own seasonally-adjusted estimate), residential sales are now below year-ago levels—and the lowest they've been since March. Though October didn't attract the same influx of new sellers as September did (we estimate new listings actually fell about 3% m/m seasonally adjusted), the pullback in sales drove demand-supply conditions closer to a buyers' market. Price momentum slowed as a result. The MLS HPI in fact dipped 0.6% last month, which held the increase from a year ago at 4.4%, unchanged from September. With the market now in full-blown cooling mode amid high interest rates and crushing unaffordability levels, annual price growth may be close to its apex this cycle. We expect tepid demand and a growing inflow of sellers to tip the scale in favour of buyers and sustain the softening in prices in the months ahead.









Calgary— Market bullishness tapering off

Rapid population growth and a relative affordability advantage are starting to wear off as powerful drivers of real estate activity in Calgary. Home resales have declined back-to-back in the last two months, including an estimated 12% m/m drop (seasonally adjusted) in October. Nonetheless, Calgary remains Canada's hottest market at this stage with sellers still holding significant pricing power amid strong competition between buyers and low inventories. Property values continue to appreciate at a solid clip. The MLS HPI is up 9.7% from a year ago, the fastest rate of increase among Canada's major markets. While the pace is likely to ease, we think price momentum is poised to stay positive in the near term.