Ontario leads Canada’s housing market cooldown

Higher interest rates are increasingly cooling housing markets across the country. There’s no region feeling it more than Ontario at this stage. Home resales in the province fell for the fifth straight month in October, reaching the lowest levels since the Great Financial Crisis (excluding the pandemic shutdown period). Demand-supply conditions in nearly half local markets (including the Greater Toronto Area, Hamilton, Niagara, Barrie and Kingston) now favour buyers outright. And inventories are building fast, especially relative to weak sales. This is all weighing on prices. The aggregate MLS Home Price Index for Ontario fell in the last three months—and doing so at an accelerating pace (-1.4% m/m in October).

Market softness is widespread

The temperature is dipping in other parts of Canada too, albeit to a lesser degree. Even super-hot Alberta is showing early signs of softening with resales falling 8.3% m/m in October. For now, prices continue to rise in the majority of provinces (including Alberta, Saskatchewan, Quebec and most Atlantic provinces), though British Columbia recorded its first decline (-0.1% m/m) in seven months.

Spring rebound has largely reversed in Canada

Nationwide, resales have dropped nearly 12% over the past four months (including a 5.0% m/m decline in October), reversing three-quarters of the spring rebound. This, along with a growing number of homes put up for sale since spring, has entirely unwound the tightness in demand-supply conditions that prevailed earlier this year. And buyers are taking advantage of their stronger bargaining position. They’ve successfully extracted price concessions from sellers in the past two months. The national aggregate MLS HPI fell 0.4% m/m in September and a larger 0.8% in October. We expect this downtrend to continue in the coming months.

Supply-side watch: still few signs of trouble

While new listings have trended higher since spring, their levels generally remain well within pre-pandemic range. And there’s been little evidence that the rise is accelerating. In fact, new listings actually fell in Canada (-2.3% m/m) and most major markets in October. With interest payments soaring for Canadians with variable-rate mortgages and renewing fixed-rate mortgages, the financial squeeze could prompt a growing number of existing owners to sell their property. This would pose a risk to the market...
if a wave of sellers ensued.

Market likely stay quiet into next year
Transaction activity has been very quiet this fall across most of Canada. High interest rates, major affordability challenges and mounting economic uncertainty have kept homebuyer demand muted, especially in high-priced markets in Ontario and BC. We see this trend continuing into next year. With the prospect of higher interest costs bringing more sellers to market, buyers could gain even more pricing power in the months ahead. This would set the stage for further price erosion in Ontario and BC. The weakness could potentially spread to other regions as well. Any meaningful turnaround in the market will have to wait until interest rates are reduced.

RBC expects the first cut in the Bank of Canada’s policy rate will be around mid-2024 though sees longer-term bond yields drifting lower ahead of that point.

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.

©Registered trademark of Royal Bank of Canada.
©Royal Bank of Canada.