



June 7, 2024

Canada's housing markets in a holding pattern

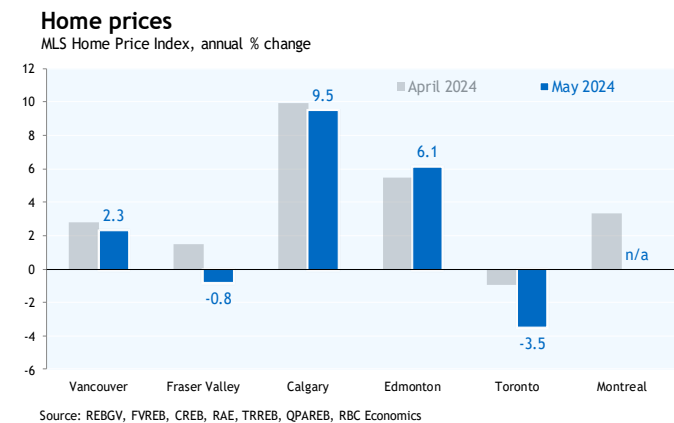
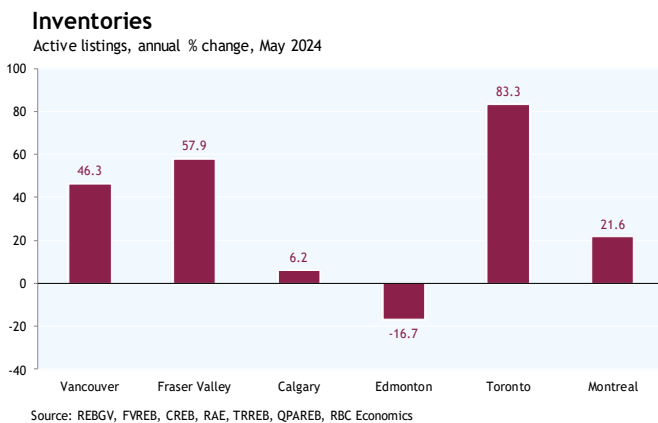
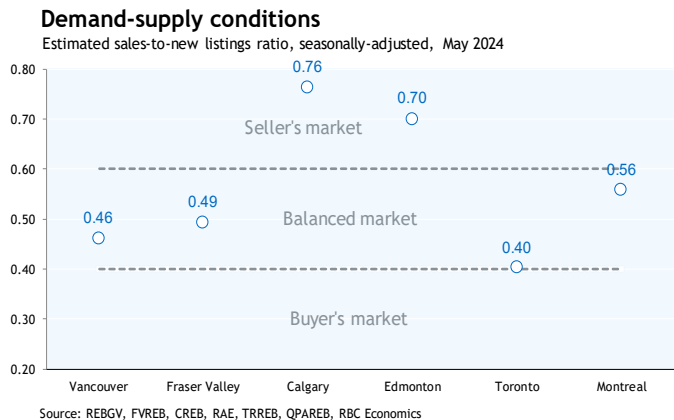
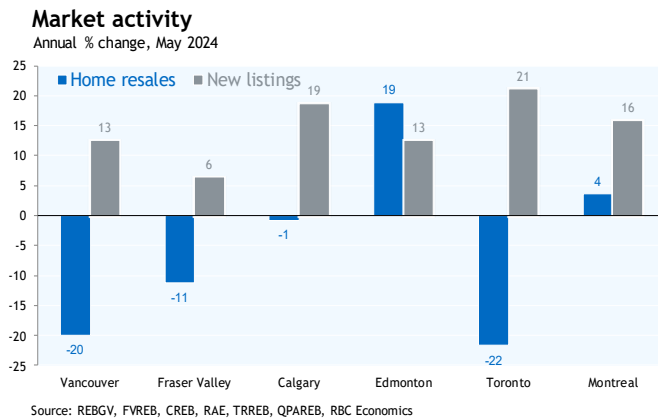
Buyers remained in a wait-and-see mode in May with an interest cut looming around the corner. Little action took place transaction-wise in most major markets according early reports from local real estate boards. Home resales in fact slipped from April levels in most cases when adjusted for seasonal factors. Bottom line: the broad recovery that started late last year essentially stalled this spring.

Calgary still stands out for its vitality. It racked up a solid gain last month. But other than pockets of strength in Prairie markets (including Edmonton), the general state of affairs in Canada's housing markets is soft.

There's been plenty of action on the supply side lately, though. More sellers have come to market and inventories are rebuilding—rapidly so in the Toronto and Vancouver areas. This is altering bargaining positions with buyers coming out with a better hand.

The recent (mild) upturn in home prices is losing steam. The MLS Home Price Index in Toronto even edged lower sequentially in May. Any further easing will largely depend on buyers' reaction to the Bank of Canada's launch of a rate cutting exercise in June. Our view is it will take several cuts to pull a critical mass of buyers from the sidelines. Prices are likely to stay flat until then and appreciate gradually thereafter. But with so much pent-up demand out there, it's possible buyers jump back more quickly, which would set prices on a stronger trajectory.

Major market highlights: May 2024





Toronto area—Seller competition intensifies as listings surge

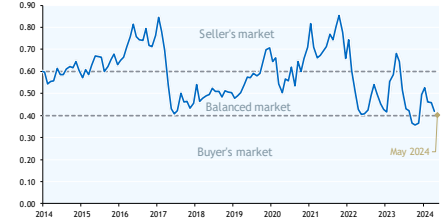
The main theme so far this spring has been a rapid increase in the number of properties for sale. Active listings were up 83% y/y in May to a decade high of 21,800 units. Condo apartments led the way with a 95% rise, though single-detached homes also jumped significantly by 71%. A stronger flow of new listings—up 8.6% since March on a seasonally adjusted basis (including a 2.6% m/m rise in May)—and a slowing pace in sales have caused inventories to spike. Home resales fell for the fourth consecutive month in May, down 1.8% from April and 18.2% since January. Rising supply and softening demand are giving buyers more bargaining power. And last month they've leveraged that power to extract price some concessions from sellers. The Toronto-area MLS HPI edged lower by 0.4% m/m, the first monthly decline since January. The index was down a larger 3.5% on a year-over-year basis, with dips ranging from -3.2% for condo apartments to -2.6% for single family detached homes. We expect higher inventories will continue to exert downward pressure on home prices in the near term amid intense unaffordability pressures.

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



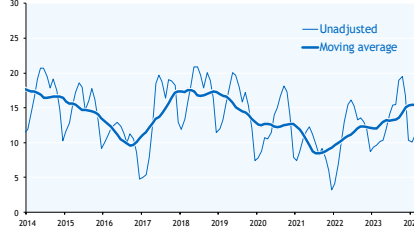
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

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



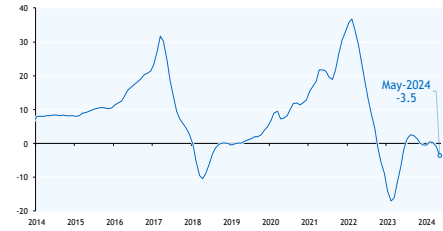
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Active listings: Toronto area
Thousand units, not seasonally adjusted



Source: Toronto Region Real Estate Board, RBC Economics

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



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

Montreal area—Spring fails to energize the market

The market took another small step back in May with home resales falling sequentially for a third straight month (down just under 2% from April by our calculation). Spring weather clearly failed to energize buyers this year. And neither have rising inventories. High interest rates and challenging affordability conditions remain significant stumbling blocks. And affordability isn't budging much with home prices still on a slight upward trajectory. The median value increased by 0.1% between May and April for a single-detached home and 2.3% for a condo apartment. Steady growth in active listings and a gradual tilting of the demand-supply scale in favour of buyers are poised to keep price appreciation minimal in the coming months before re-accelerating later this year once interest rates have come down meaningfully.

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



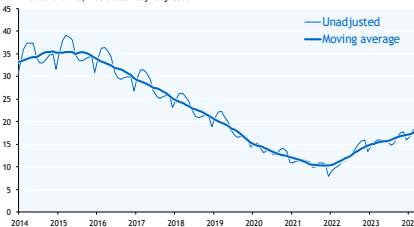
Source: QPAREB/CREA, RBC Economics

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



Source: QPAREB/CREA, RBC Economics

Active listings: Montreal area
Thousand units, not seasonally adjusted



Source: QPAREB via Centris, RBC Economics

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



Source: QPAREB/CREA, RBC Economics

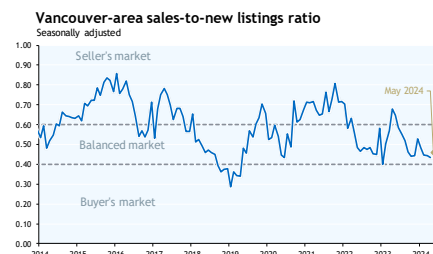


Vancouver area — Buyers stay on the sidelines

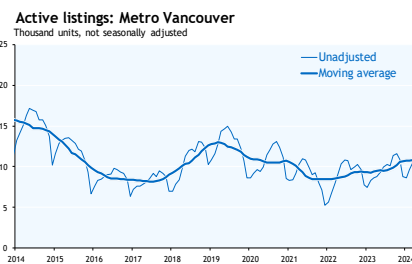
Little action has taken place in the market lately at what should be a seasonal high point. We estimate resale transactions fell more than 5% m/m in May (seasonally adjusted) to a level that is 20% below where it was a year ago—and closer to 23% below where it was before the pandemic. Lacklustre activity and an influx of sellers since fall have led to a build-up in for-sale inventories. Active listings reached a four-year high of 13,600 units in May. Yet so far property values have stayed on an appreciating path. Vancouver's MLS HPI was up 2.3% y/y last month, with both the detached home (+5.9%) and condo apartment (+2.2%) categories rising. Upward momentum is likely to wane if demand remains sluggish and inventories keep piling up. Indeed, the annual rate of price appreciation has steadily decelerated this year. Budget-constrained buyers have a limited capacity to bid up prices in this market—the least affordable in the country.



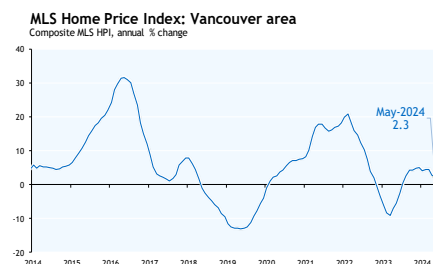
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics



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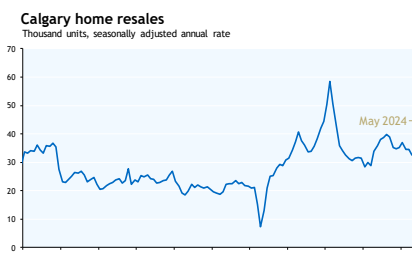
Source: Real Estate Board of Greater Vancouver, RBC Economics



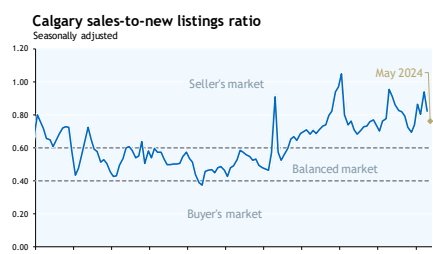
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Calgary — Supply uptick spurs activity

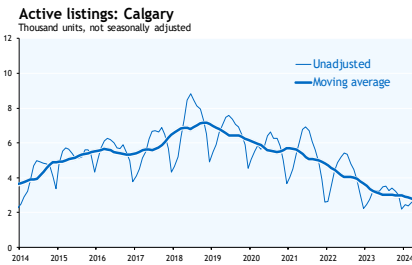
A spurt of new listings got buyers going in May. The new offerings led to a solid 9% m/m (seasonally adjusted) jump in sales transactions by our own calculations. This follows three months of easing activity amid historically low inventories. Explosive population growth and a vibrant economy are sustaining exceptionally strong housing demand in Calgary. The market is easily the hottest in the country at the present time with resales near pre-pandemic peaks and price appreciation outpacing all other markets. If anything, activity could be even stronger were there more supply. The MLS HPI was up 9.5% y/y in May, supported by outsized gains in the condo apartment (+17.9%) and single-detached home (+13.0%) indices. We see the current super tight demand-supply conditions continuing to propel property values higher in the near term. But rapidly eroding affordability may restrain the pace. Calgary buyers—like all others in Canada—face significant budget pressures.



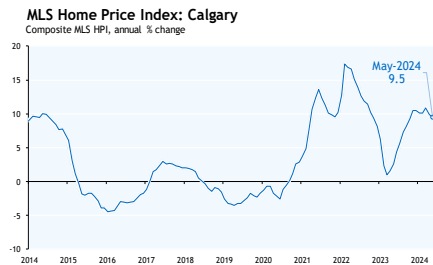
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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