



August 4, 2023

## Real estate action dims in Ontario and BC but Prairie markets keep on rolling

The Bank of Canada’s ninth and tenth rate hikes took the wind out of many real estate markets’ sail. The number of transactions fell in Vancouver, the Fraser Valley, Hamilton, Toronto and Ottawa between June and July, based on early market results from local real estate boards—halting what had been surprisingly strong rallies this spring. Price gains moderated considerably in most cases. But markets in Alberta and Saskatchewan have largely stayed the course. Calgary, Edmonton, Regina and Saskatoon all recorded further monthly sales advances in July (on a seasonally-adjusted basis), with sellers maintaining a dominant market position.

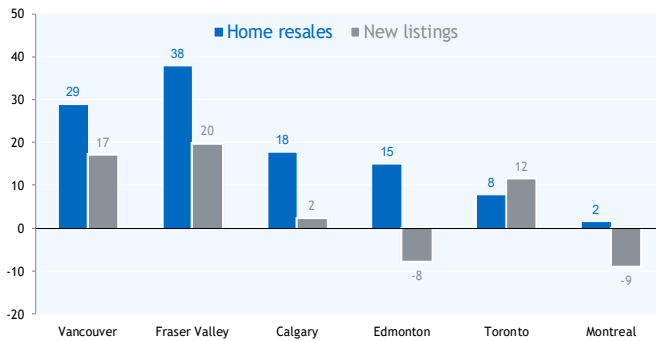
There was good news on the supply side again last month. Sellers put up more properties for sale in all early-reporting markets—extending multi months-long trends for the most part. This has helped rebalance markets in Ontario and British Columbia, which had tightened significantly during the spring. If sustained, we would expect price gains to continue moderating in the coming months.

Signs of cooling activity in some of Canada’s largest markets are consistent with our view that the spring rebound was premature, and will taper off further amid high interest rates, ongoing affordability issues and a looming recession. We think the path ahead is more likely to be slow and bumpy, with the recovery gaining momentum when interest rates come down—a 2024 story.

### Major market highlights: July 2023

#### Market activity

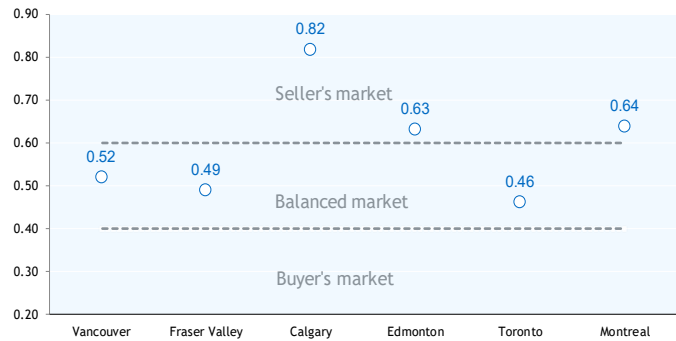
Annual % change, July 2023



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

#### Demand-supply conditions

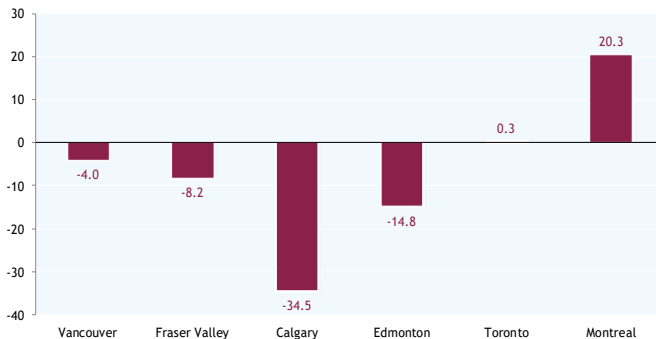
Estimated sales-to-new listings ratio, seasonally-adjusted, July 2023



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

#### Inventories

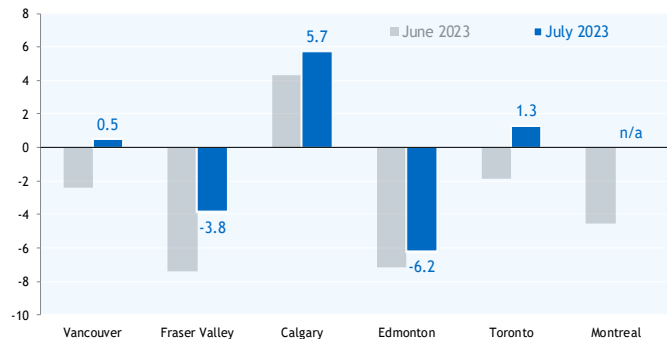
Active listings, annual % change, July 2023



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

#### Home prices

MLS Home Price Index, annual % change



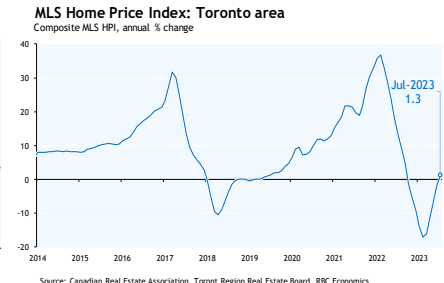
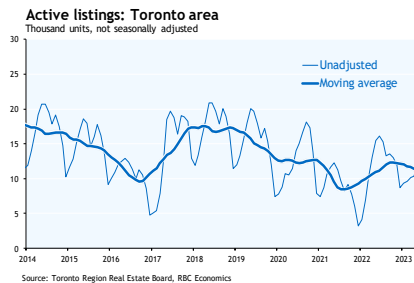
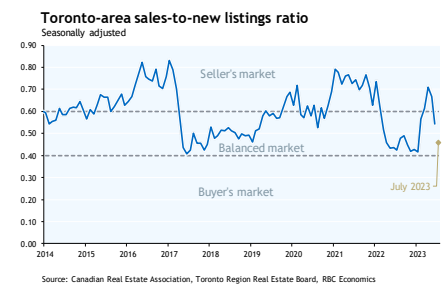
Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics



## Toronto area—Spring momentum stalls

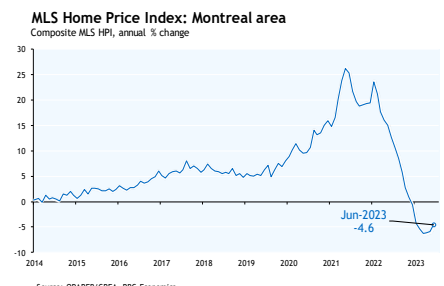
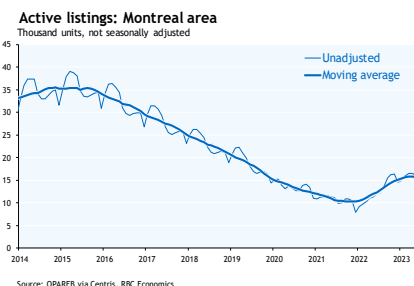
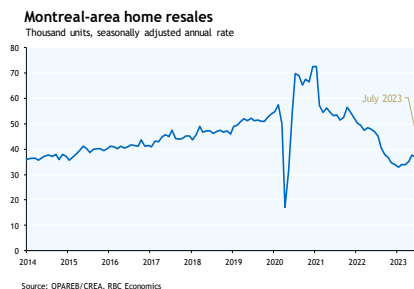
July marked a second-straight month of softening activity in the Toronto-area market. Home resales fell 8.8% m/m (on a seasonally-adjusted basis) on the heels of an 8.4% decline in June. With exceptionally high ownership costs already stretching the limit of many buyers, the latest interest rate increases no doubt sent more of them to the sidelines—stalling the surprisingly-brisk momentum that emerged this spring. But those still house hunting are seeing more options becoming available. New listings jumped 8% m/m (seasonally adjusted). This represented the fourth consecutive monthly increase. Recent developments have largely undone this spring's tightening in demand-supply conditions. A better market balance should turn the heat down on prices. Indeed, the rate of increase in Toronto's composite MLS HPI (+0.9% m/m in July) moderated by almost two-thirds relative to the previous three months' average (2.4%).

We expect the pace to moderate further in the period ahead. The rebound in prices since spring has returned the index above year-ago levels (+0.5%) with single-detached homes leading the way (+3.0%). Benchmark condo prices remain 2.0% below July 2022 levels. We see high interest rates and the likelihood of a recession keeping real estate activity quiet in the area in the coming months.



## Montreal area—Rise in listings sustains the market's recovery

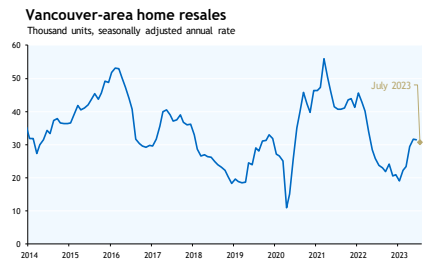
Sellers are gradually making their way back to the market after many of them sat out last year's downturn. The increase in new listings in July—which we peg at 7% m/m (seasonally adjusted)—helped extend the sales recovery since spring. We estimate the number of transactions last month grew by more than 10% from June on a seasonally-adjusted basis. But the recovery has a long way to go still. Home resales remain some 30% below pre-pandemic levels with high interest rates and the loss of affordability holding back demand and still-low inventories—despite rising 20% from a year ago—constraining supply. The market's balance continues to be in a moderately tight position, which supports modest price appreciation. The median value for a single-detached home rose for the fifth time in six months in July, up 0.9% from June. The increase was slightly larger for condo apartments at 1.3%. We expect further measured appreciation in the near term.



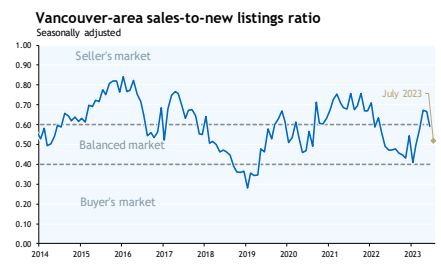


## Vancouver area—A softer tone sets in

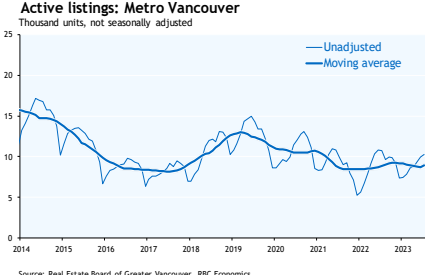
The Bank of Canada's back-to-back rate hikes in the past two months changed the tone of the market. Buyers turned more tentative in July, leading to an estimated 3% drop in home resales from June on a seasonally-adjusted basis. More sellers came forward though—continuing a trend from the previous three months. This helped rebalance demand-supply conditions markedly, and may be starting to take steam out of the price rally. Vancouver's composite MLS HPI (up 0.6% m/m) rose at less than half the average monthly rate in the previous five months (1.5%). That said, July marked the first time the index climbed above year-ago levels (up 0.5%) since October 2022. Condo prices appreciated the most over that interval, rising 2.6%—ahead of townhouses (+1.2%) and single-detached homes (+0.6%). Looking ahead, extremely poor affordability and high interest rates are likely to keep home ownership out of reach for many interested buyers; as such, we expect the softer tone to persist for some time to come.



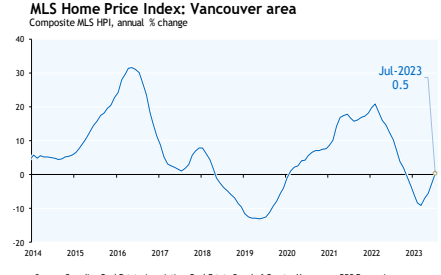
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics



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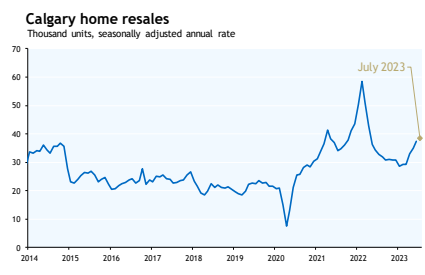
Source: Real Estate Board of Greater Vancouver, RBC Economics



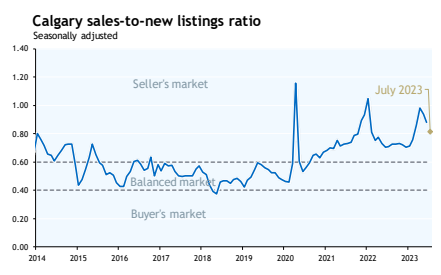
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

## Calgary— No signs of quieting down

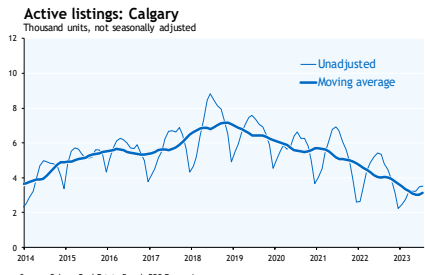
July marked the fourth consecutive increase in home resales in Calgary. Up an estimated 3% from June (seasonally-adjusted), transactions stood more than 15% above year-ago levels. In the absence of further rate hikes this year, we think strong economic momentum and, importantly, explosive population growth will continue to support a brisk pace of activity through the remainder of this year. Amid persistent low inventories, fiercely competing buyers are poised to bid prices higher still. Calgary's benchmark price is already rising at one of the fastest paces in the country (+5.7% y/y). Prices for townhouses (+14% y/y) and apartments (+12% y/y) have been real standouts in the past year.



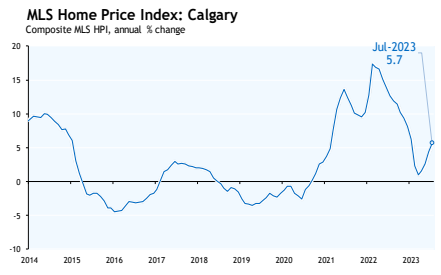
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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