

February 7, 2020

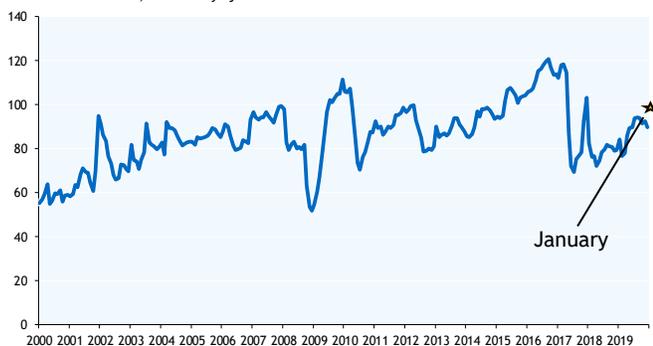
Are Toronto home prices sky-bound again?

It's looking more and more like early-2016 all over again for the Toronto housing market. This is not a good sign. Those were the days when things started to heat up uncomfortably, propelling property values sky-high in the ensuing year. January real estate board-level statistics released yesterday showed low inventories and further price acceleration. The numbers suggest the sales-to-new listings ratio—a reliable gauge of market tightness—climbed above 0.70 last month, a level that usually sets the stage for even stronger price gains in the near term. So we could see the benchmark price (which rose at the annual rate of 8.7% in January, up from 7.3% in December) increase at a double-digit pace within the next couple of months if the market tightness persists. And that's a real possibility because new listings continue to be scarce as we head into the spring season. Supply—of existing and new homes—will be key to what happens next in Toronto's housing market. If it stays low, prices will likely keep ramping up beyond the next couple of months. Worse, if supply shrinks even further, prices could spiral upward like they did in 2016 and early 2017. The last thing the market needs right now is any policy move that would tighten things up even more—be it by restricting supply, or more importantly, by stimulating demand.

Weather was a big factor in January in **Vancouver**. Although the Real Estate Board of Greater Vancouver reported a significant 42% jump in home resales from a year ago, we figure activity fell materially (perhaps as much as 15% or 20%) from December on a seasonally-adjusted basis due to major snow storms that hit BC's Lower Mainland region. So last month wasn't a good read of the under-

Toronto-area home resales

Thousand units, seasonally adjusted annual rate



Source: CREA, RBC Economics

Toronto-area sales-to-new listings ratio

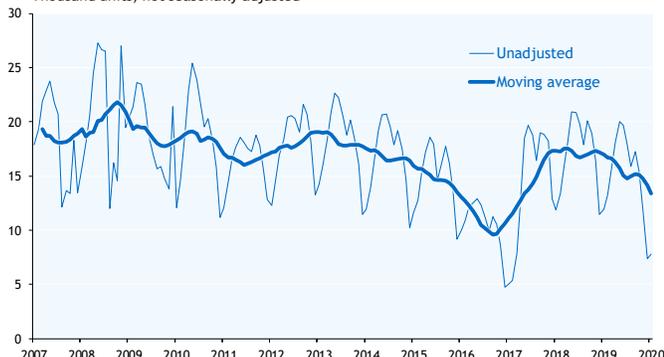
Seasonally adjusted



Source: CREA, RBC Economics

Active listings: Toronto area

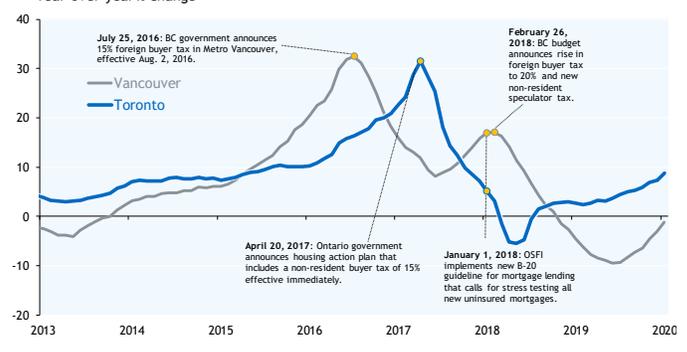
Thousand units, not seasonally adjusted



Source: Toronto Region Real Estate Board, RBC Economics

MLS Home Price Index

Year-over-year % change



Source: CREA, TREB, REBGV, RBC Economics

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Home resales: Vancouver area

Thousand units, SAAR



Source: CREAA, RBC Economics

Vancouver-area sales-to-new listings ratio

Seasonally adjusted



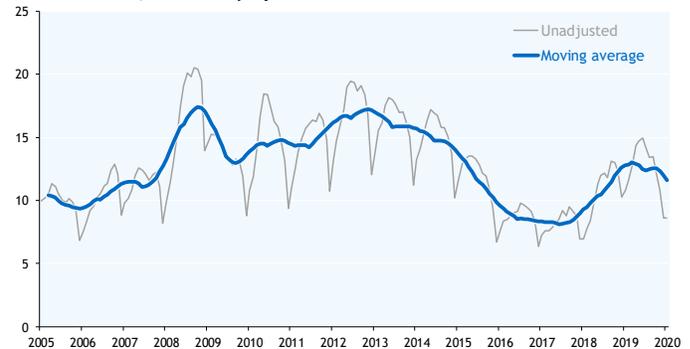
Source: CREAA, RBC Economics

lying trends, which we continue to view as strengthening. The benchmark price was still down (-1.2%) in January from a year ago but that's about to change soon. The benchmark has been climbing month-to-month since October. And tighter demand-supply conditions—the market is now favourable to sellers—and declining inventories should keep this going through the remainder of 2020.

Ottawa and **Montreal** real estate boards yesterday continued to report high activity levels and low inventories. New listings plummeted 23% in Ottawa last month compared to January 2019. In Montreal, active listings plunged 28% over the same period. Both markets are not only the hottest (demand-wise) in the country, they're also the tightest. Their sales-to-new listings ratios have been above 0.80 since October—indicating intense upward pressure on property values. Ottawa's benchmark price shot up 13.8% year-over-year in January and median prices increased 11%-12% across housing categories in Montreal. Odds are there will be further price acceleration in the near term.

Active listings: Metro Vancouver

Thousand units, not seasonally adjusted



Source: Greater Vancouver Real Estate Board, RBC Economics

The market recovery in **Calgary** and **Edmonton** remains a work in progress. Both markets recorded stronger home resales in January compared to a year ago (up 7.6% and 0.5%, respectively) though gains were smaller than they were in December (10.9% and 9.1%, respectively). This suggests little momentum as 2020 kicked off. Poor weather might have been a factor, however, as unusually frigid temperatures potentially disrupted activity. The good news is that earlier elevated inventories are being drawn down. Active listings fell in both Calgary and Edmonton last month. Further reductions should stabilize prices later this year.