

CANADA'S HOUSING MARKET

February 6, 2019

Toronto and Vancouver buyers stay in hibernation in January; prices drift down

The Toronto and Vancouver housing markets started 2019 the same way they ended 2018—on a soft note. Higher interest rates, the mortgage stress test, and in the case of Vancouver, measures adopted last year by the BC and municipal governments still keep many buyers out of play. Activity levels remain historically low, especially in Vancouver where home resales are running some 36% below their 10-year average. But the good news is that activity didn't slide any further in January. The Toronto Real Estate Board said today that home resales rose by 3.4% between December and January on a seasonally-adjusted basis, and (unadjusted) data released Monday by the Real Estate Board of Greater Vancouver lead us to believe that resales rose roughly by the same magnitude in Vancouver.

Market softness is exerting downward pressure on home prices. In Toronto, this pressure is tempered by the fact that demand-supply conditions remain balanced. So despite declining 1.1% since May, the composite benchmark price in the Toronto area was still up 2.7% in January relative to a year ago. In Vancouver, however, demand-supply conditions clearly favour buyers at this point and prices are coming down more visibly. The area's composite benchmark price now has fallen by 7.7% since the cyclical peak in June 2018—and by 4.5% relative to January 2018. Expect further declines in the near term. Current market conditions suggest that the

Toronto-area home resales

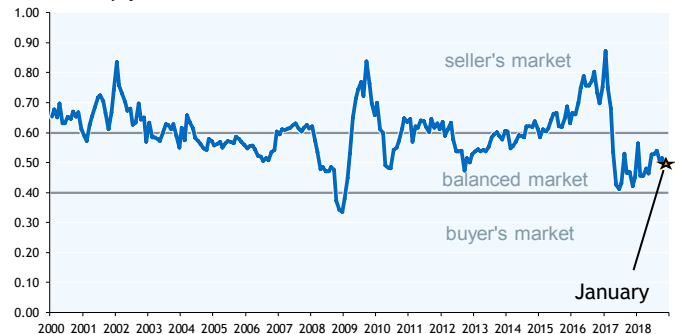
Thousand units, seasonally adjusted annual rate



Source: CREA, RBC Economics Research

Toronto-area sales-to-new listings ratio

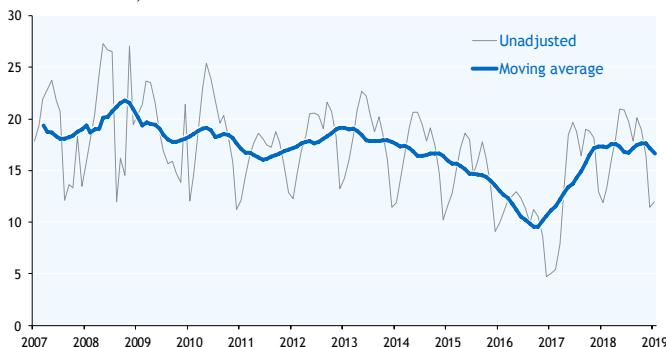
Seasonally adjusted



Source: CREA, RBC Economic Research

Active listings: Toronto area

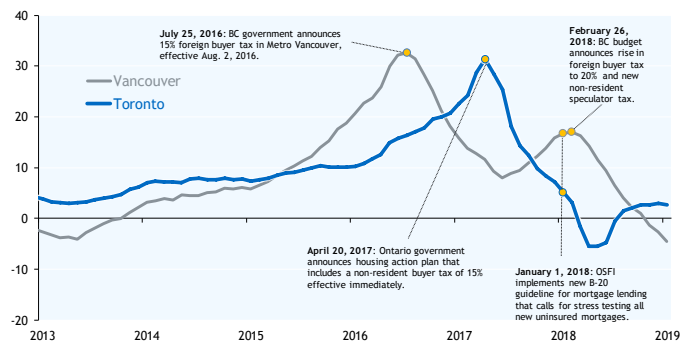
Thousand units, NSA



Source: Toronto Real Estate Board, RBC Economic Research

MLS Home Price Index

Year-over-year % change



Source: CREA, TREB, REBGV, RBC Economic Research

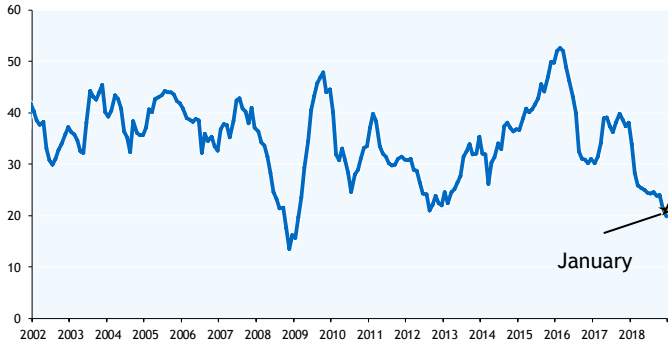
Robert Hogue

Senior Economist | 416-974-6192 | robert.hogue@rbc.com



Home resales: Vancouver area

Thousand units, SAAR



Source: CREA, RBC Economics Research

Vancouver-area sales-to-new listings ratio

Seasonally adjusted



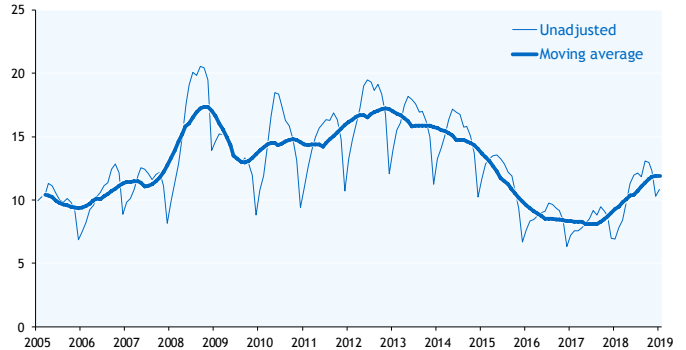
Source: CREA, RBC Economics Research

pace of decline is unlikely to ease up much in the coming months. So a double-digit price drop from peak to trough appears to be in the making in the Vancouver area. We wouldn't exclude the possibility that this drop might rival the nearly 14% correction that occurred in 2008-2009.

Our view is that such an outcome might not be a bad thing from a longer-term perspective. Lower prices—whether in Vancouver or Toronto—will help alleviate the severe affordability issues that currently represent a major source of vulnerability. We continue to believe that the risk of a full-blown housing collapse is remote in either market given the strength of their economies and demographic underpinnings.

Active listings: Metro Vancouver

Thousand units, not seasonally adjusted



Source: Greater Vancouver Real Estate Board, RBC Economics Research