

April 3, 2020

## COVID-19 hit in March is just the beginning of a tough period

Canada's housing market passed a major inflection point mid-March. Early results from local real estate boards show a sharp drop-off in home resales in the second half of the month after what was a strong first half. We expect activity to slow to a crawl in most markets across the country in April and for as long as social distancing and lockdown measures are in place. Home prices held up well overall in March—strengthening further in both Toronto and Vancouver—though it's unclear how long this can continue. We expect property values to come under increasing downward pressure the longer restrictions persist and the deeper the recession gets. Super thin activity also makes the market prone to erratic price moves.

The Toronto Region Real Estate Board indicated **Toronto-area** home resales were up 49% y/y in the first 14 days of March and then plummeted -16% in the remainder of the month. On the whole, March resales were 12% above the level a year ago. This marked a significant slowing from the 44% y/y increase recorded in February. By our own rough calculation, March activity shrunk about 23% from February on a seasonally-adjusted basis. We also estimate new listings fell 9%. Demand-supply conditions loosened somewhat as a result though remained in balanced territory—at least, overall in the month—maintaining support for prices. The rate of increase in the MLS Home Price Index accelerated to 11.1% y/y. We expect price support to wear down in the weeks ahead. Still we see a low risk of a collapse at this point. We believe the extraordinary policy response from all levels of government and the Bank of Canada, as well as accommodating measures offered by financial institutions will soften the blow.

**Toronto-area home resales**

Thousand units, seasonally adjusted annual rate



Source: CREA, RBC Economics

**Toronto-area sales-to-new listings ratio**

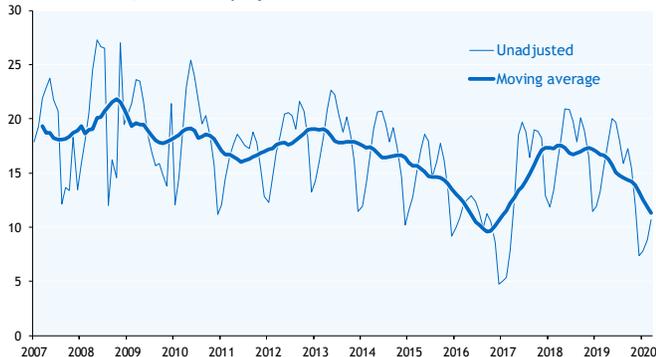
Seasonally adjusted



Source: CREA, RBC Economics

**Active listings: Toronto area**

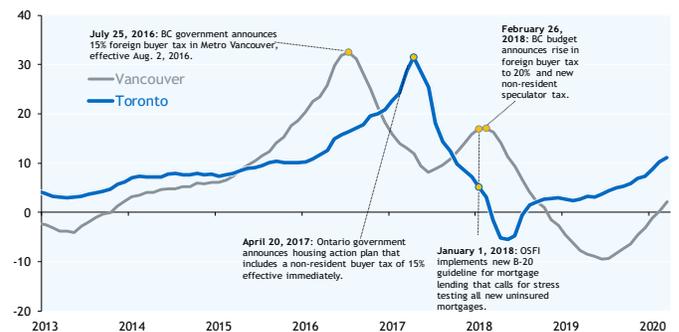
Thousand units, not seasonally adjusted



Source: Toronto Region Real Estate Board, RBC Economics

**MLS Home Price Index**

Year-over-year % change



Source: CREA, TRREB, REBGV, RBC Economics

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**Home resales: Vancouver area**

Thousand units, SAAR



Source: CREA, RBC Economics

**Vancouver-area sales-to-new listings ratio**

Seasonally adjusted



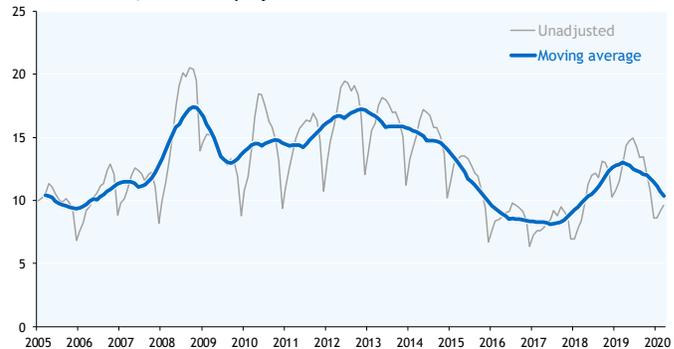
Source: CREA, RBC Economics

A similar story emerged in the **Vancouver area** in March where the heat in the market evaporated over the latter half of the month. The overall sales figure looked impressive at first glance—up 46% y/y—but it was mostly because of an extremely weak comparison point a year ago. We estimate home resales fell 7% from February on a seasonally-adjusted basis. The MLS HPI climbed above the year-ago level for the first time in 17 months (up 2.1%). This could well be as high as the index will get. We expect pricing dynamics to weaken in the period ahead.

The outlook is even bleaker in **Calgary** where the local real estate board reported an 11% y/y sales drop in March sales and 0.8% decline in the MLS HPI. Given the severity of the economic shock—double whammy delivered by COVID-19 and oil price plunge—and soft demand-supply conditions ahead into the crisis, we believe property values are at risk of a more sizable decline.

**Active listings: Metro Vancouver**

Thousand units, not seasonally adjusted



Source: Greater Vancouver Real Estate Board, RBC Economics