

CANADA'S HOUSING MARKET

April 3, 2019

Housing market remains soft in March in Vancouver and Toronto

The end of winter didn't spark a flurry of home-buying activity in Canada if March sales results for Vancouver and Toronto are any indications. In fact, very weak market conditions got even weaker in Vancouver where policy measures introduced by all levels of government in the past couple of years continue to keep buyers disinterested—or discouraged. Home resales fell to their lowest level since 1986 (down another 7% from February by our calculations) and the benchmark price eased for a ninth-straight month (down 8.5% since the June 2018 peak). If the reason why Vancouver buyers are staying on the sidelines is that they're waiting for more significant price breaks, that could well be what's coming. We expect property values to remain under intense downward pressure in the near term.

March activity was the softest in 10 years in Toronto but at least things didn't get any softer relative to February. Resales increased a little less than 2% m/m (on a preliminary seasonally-adjusted basis)—a drop in a bucket compared to the sizable 13% m/m plummet in February. A lack of buying options could have been a factor holding back activity as new listings fell 4.5% from a year ago. This possible explanation finds some support in the fact that the benchmark price rose at a faster pace in March (2.6% y/y) than February (2.3%)—suggesting that buyers had to bid more aggressively in the face of limited supply. We expect more sellers to come out of the

Toronto-area home resales

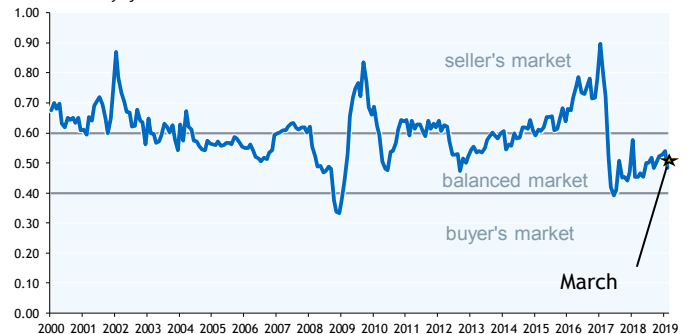
Thousand units, seasonally adjusted annual rate



Source: CREA, RBC Economics Research

Toronto-area sales-to-new listings ratio

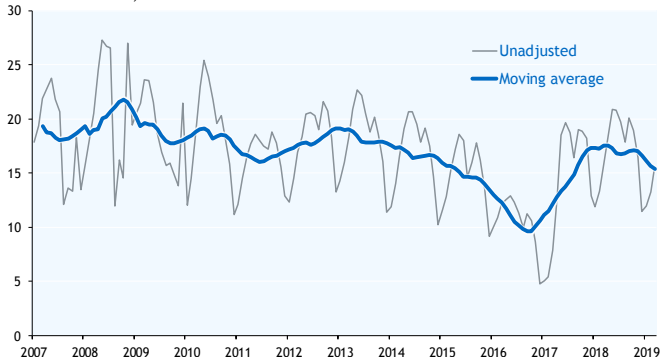
Seasonally adjusted



Source: CREA, RBC Economic Research

Active listings: Toronto area

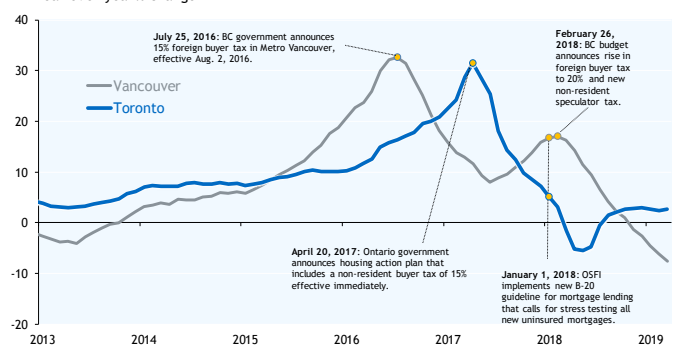
Thousand units, NSA



Source: Toronto Real Estate Board, RBC Economic Research

MLS Home Price Index

Year-over-year % change



Source: CREA, TREB, REBGV, RBC Economic Research

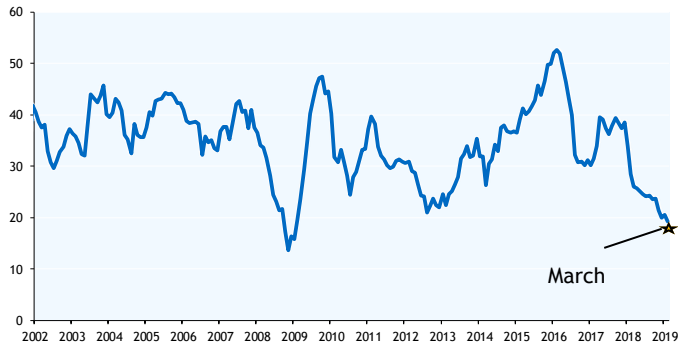
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Home resales: Vancouver area

Thousand units, SAAR



Source: CREA, RBC Economics Research

Vancouver-area sales-to-new listings ratio

Seasonally adjusted



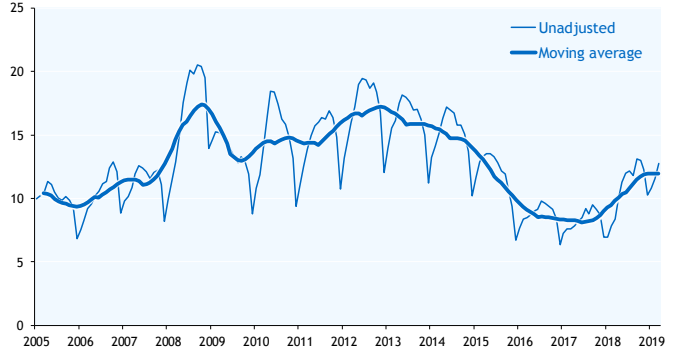
Source: CREA, RBC Economics Research

woodwork over the next few months as (slightly) stronger negotiating position boosts their confidence. Given generally balanced demand-supply conditions, price increases are poised to stay in the low single-digits in the near term in the Toronto area.

This winter has been particularly rough for residential real estate markets across most of Canada. The March results published in the last couple of days in Vancouver and Toronto—as well as in Victoria, Calgary and Hamilton—offer little in the way of a meaningful rebound during the all-important spring season. While recent declines in mortgage rates and the new first-time home buyer incentive announced in the 2019 federal budget could be catalysts for a rise in activity later this year, we believe that the stress test and other market-cooling policy actions will continue to weigh heavily on buyers.

Active listings: Metro Vancouver

Thousand units, not seasonally adjusted



Source: Greater Vancouver Real Estate Board, RBC Economics Research

Current market slumps in Vancouver and Toronto shouldn't necessarily be seen as negative. Declining or slow-rising prices help ease their enormous affordability problems. Policy makers will view recent developments as signs of policy success. So don't expect any change of heart on their part—so long as markets stay on the rails.