



December 7, 2023

All quiet on most fronts in Canada's housing markets

It's been a tranquil fall season for Canada's housing markets this year. Early results from local real estate boards confirmed the broad cooling that took hold late this summer persisted into November. Transactions fell across the board from October levels and property values for the most part eroded—with red-hot Calgary continuing to buck the trend. There's no doubt high interest rates, affordability issues and growing economic uncertainty are holding back potential buyers in a big way. Home resale activity is at or near depressed levels in Montreal, Ottawa, Toronto, Hamilton, Vancouver, the Fraser Valley and Victoria. And demand-supply conditions have tilted or are tilting in favour of buyers in these markets. This caused the MLS Home Price Index to fall slightly month-over-month in Toronto, Hamilton, Vancouver and the Fraser Valley.

Price support remains solid in Alberta though it's been softening lately there too. The big surprise in November has been a spike in new listings in Calgary (from low levels), which sharply rebalanced market conditions. It could temper future price gains if sustained.

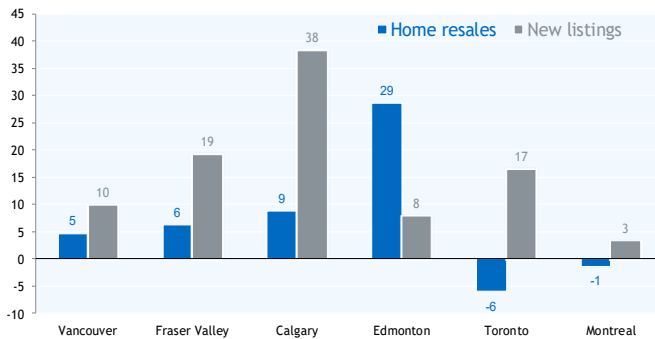
Generally, we have yet to see any concerning rise in supply that may be associated with the mortgage renewal shock. In fact, new listings actually fell month-over-month in several markets in November, including Toronto and Vancouver.

We expect buyers will stay on the defensive in many parts of Canada into the early part of next year. We see them leveraging their stronger bargaining position to drive prices further down until interest cuts brings in more competition.

Major market highlights: November 2023

Market activity

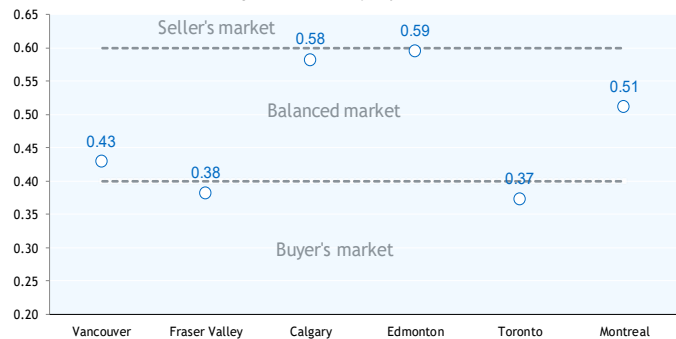
Annual % change, November 2023



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

Demand-supply conditions

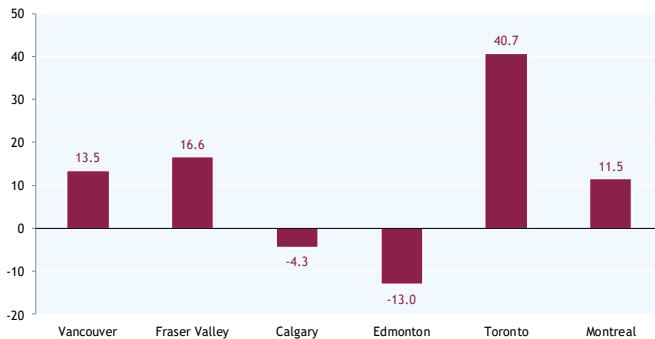
Estimated sales-to-new listings ratio, seasonally-adjusted, November 2023



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

Inventories

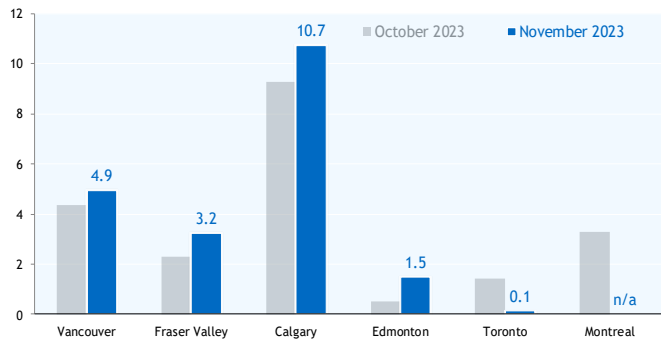
Active listings, annual % change, November 2023



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

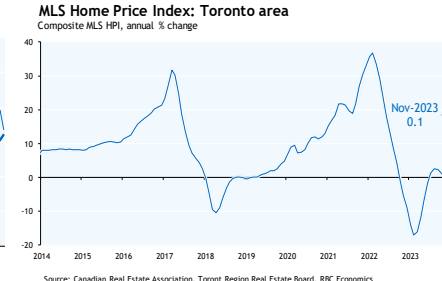
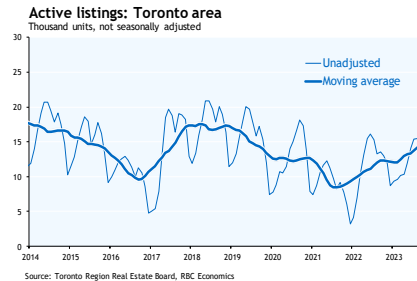
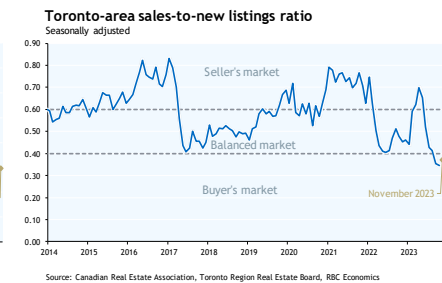
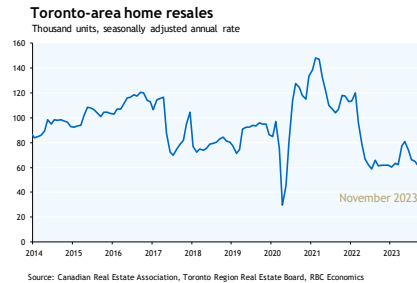
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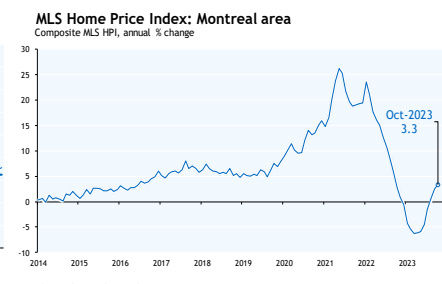
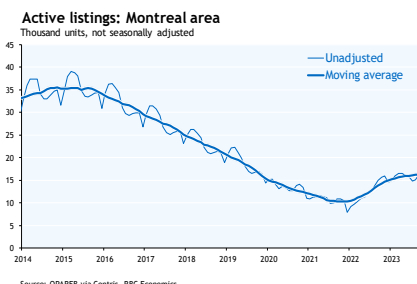
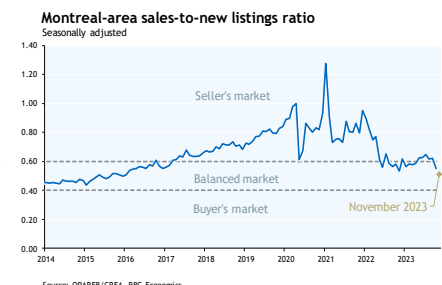
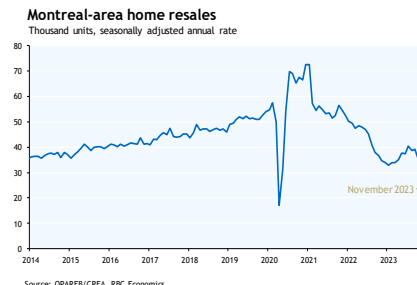
Toronto area—In correction mode

High interest rates are weighing heavily on the market. Home purchase activity has been very soft this fall and prices are trending lower. While rising a slight 1.7% m/m last month, home resales remain near decades lows (excluding the pandemic lockdown period), with high interest rates and poor affordability keeping demand weak. Prices are down sequentially over the last four months. The 1.7% m/m drop in the area's MLS HPI in November brings the total correction to -4.8% (or nearly -\$56k) since August. Odds are prices will continue to fall in the near term. Demand-supply conditions unambiguously favour buyers at this stage. Back-to-back monthly declines in new listings in October and November did little to alter buyers' strong bargaining power. What the drops indicated, though, is that high interest rates haven't so far triggered a wave of sellers—something we've been keeping an eye on as a sign of homeowner trouble arising from the mortgage renewal shock. New listings are currently in line with levels that prevailed in 2018-2019.



Montreal area—Quiet but balanced

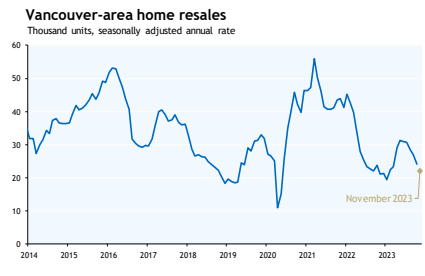
The market is quickly returning to the position it was in at the start of 2023: quiet but generally balanced. The high interest rate-induced cooling this fall has largely reversed the spring's rebound in activity. The number of sellers entering the fray is creeping up though it hasn't overshot demand that much to date. Still, some downward price pressure has emerged. Median prices for single-family homes and condos are down over the past two to three months. Any further weakening in demand in the period ahead would undoubtedly extend that trend. Home resales fell in three of the past months, including by an estimated 2% m/m in November (seasonally adjusted). We expect activity to stay quiet into the early part of 2024.



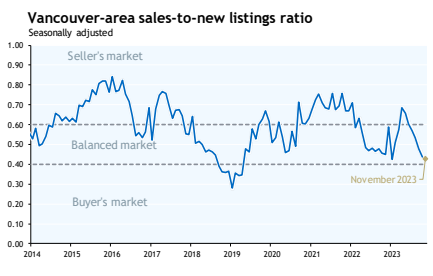


Vancouver area — Cooling all round

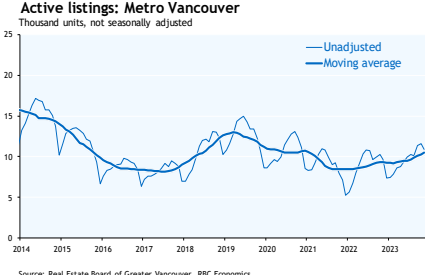
Mounting evidence clearly point to a broad cooling in the market. Home resales are down sequentially in each of the past six months, including an estimated 8% m/m drop in November. At this rate, they will soon hit a new cyclical low point. Inventories are trending higher (albeit from low levels last year). The combination of weak demand and rising supply has tipped the scale in favour of buyers. Property values are now headed south. Vancouver's MLS HPI fell back-to-back in October and November on a month-to-month basis. We expect further declines in the near term. We believe it will take sizable cuts in interest rates to turn the market around. Extremely poor affordability will remain a major obstacle for potential buyers for some time.



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



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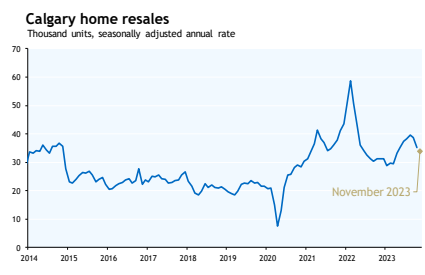
Source: Real Estate Board of Greater Vancouver, RBC Economics



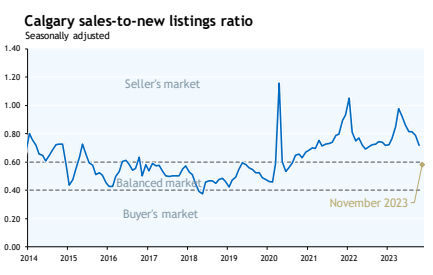
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Calgary — More sellers enter the market

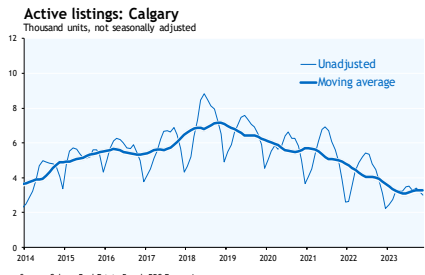
There were further signs of moderation in the red-hot Calgary market last month but the most surprising development was a spike in new listings. The local real estate board reported a 38% y/y jump in homes put up for sale. By our calculation, this works out to a sharp 19% m/m increase (seasonally adjusted) in November—the strongest rise since February 2022. The spike was broadly based across housing categories though condo apartment listings (up 79% y/y) claimed a disproportionate share. Alongside a third-straight monthly decline in home resales (down an estimated 3.5% m/m in November), the jump in supply helped rebalance the market—which until last month had been exceptionally tight. If sustained, it should moderate the rate of price appreciation. For now, property values continue to escalate at a brisk pace. The annual rate of increase in the MLS HPI reached double-digits last month—by far the strongest among Canada's major markets.



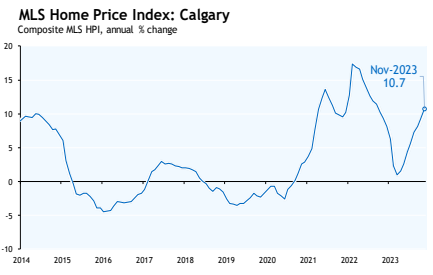
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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