



March 8, 2024

Reality check: Canada’s housing market isn’t out of the woods yet

Anyone expecting smooth sailing ahead for the housing market got a reality check in February. Month-to-month drops in home resales in several of Canada’s major markets were a reminder that very challenging affordability conditions still heavily constrain many buyers—despite emerging signs of a market turnaround in the previous two months. Reports from local real estate boards showed February’s backsteps partly reversed advances made at seasonal low points in December and January.

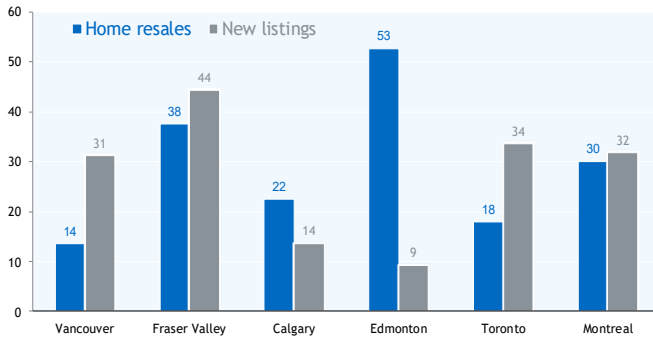
Some of these reports also revealed a rise in sellers entering the market. This was the case in Vancouver, the Fraser Valley, Edmonton, Hamilton and Montreal, where we estimate new listings increased between 3% and 14% from January. We suspect sellers who took a pass in the fall may have taken an early jump on the upcoming spring market, warmed by news of busier activity in December and January. Demand-supply conditions generally eased across the country last month though remained balanced in most of Canada, with several Prairies markets still strongly favouring sellers.

And yet, home prices picked up (slightly) in all major markets—perhaps marking a turning point. The MLS Home Price Index in Toronto, for instance, rose month over month for the first time in seven months. The earlier tightening in demand-supply conditions in December and January no doubt gave sellers more sway in setting prices. We [think](#) a vigorous, sustained recovery won’t take shape until interest rates fall more meaningfully—something we peg for the second half of 2024.

Major market highlights: February 2024

Market activity

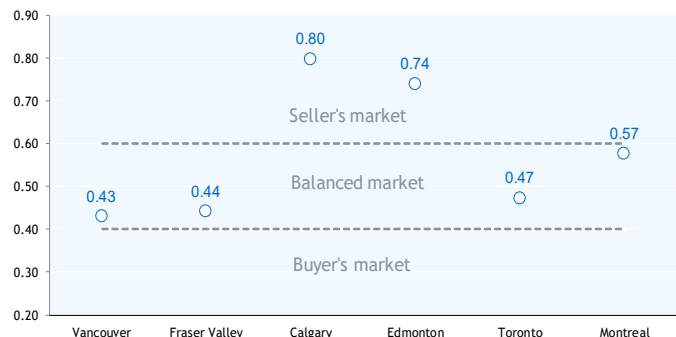
Annual % change, February 2024



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

Demand-supply conditions

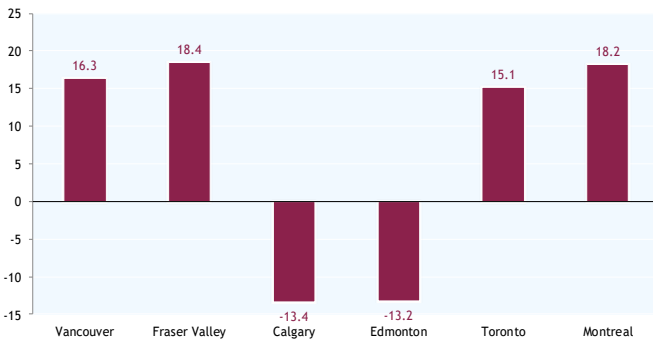
Estimated sales-to-new listings ratio, seasonally-adjusted, February 2024



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

Inventories

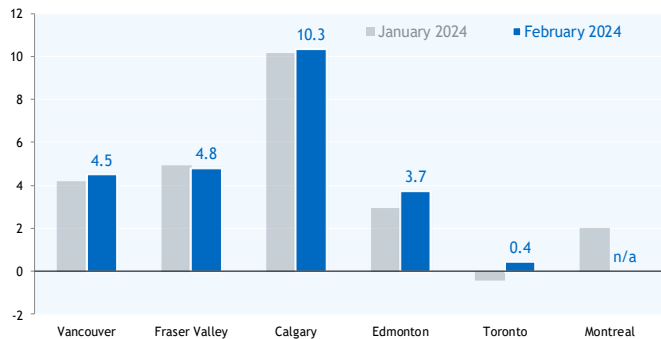
Active listings, annual % change, February 2024



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

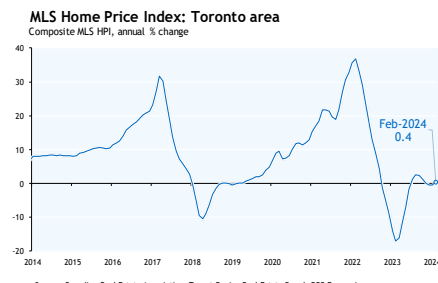
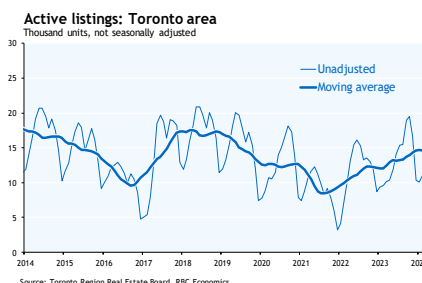
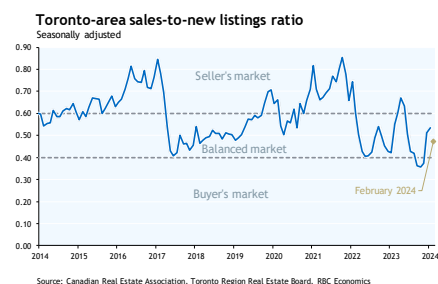
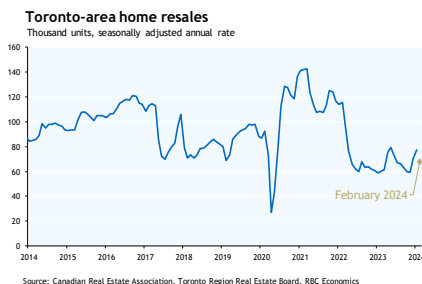
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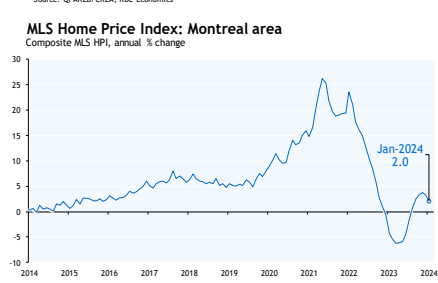
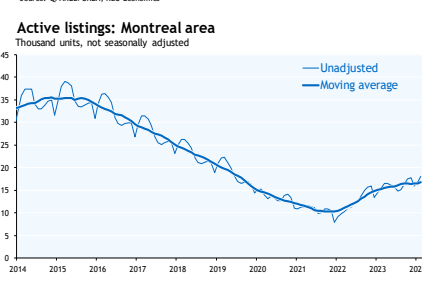
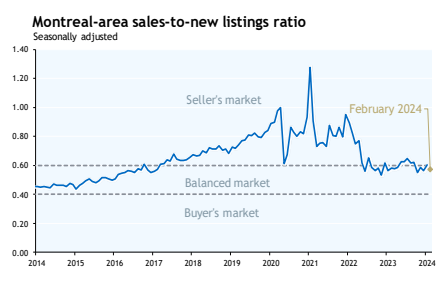
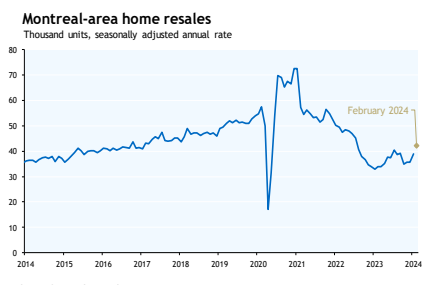
Toronto area—Bumpy recovery

February rolled back about half the sales increases that took place in the prior two months. On a seasonally-adjusted basis, home resales fell 12% between January and February. This up-and-down pattern could be a sign of things to come, as interest rate uncertainty and poor affordability keep buyers and sellers on their toes for the next while. Prices did go up, though—possibly signaling the last six months' correction has run its course. The Toronto area's MLS HPI eked out a minuscule 0.2% m/m gain in February, which we think is a reflection of the market tightening in December and January. The index remains little changed from where it was a year ago (up just 0.4%). The end of the correction doesn't mean prices are about to take off. In fact, we believe they're most likely to stay largely flat in the near term—and wouldn't exclude the possibility of further modest declines if sentiment sours. Huge affordability issues will continue to be a major roadblock for many buyers.



Montreal area—Gathering momentum

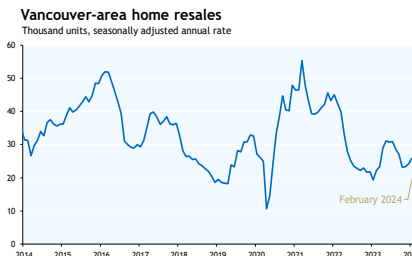
The market in February built on the momentum it gathered in January. We estimate home resales increased 8% m/m last month, just shy of the solid 9.4% gain recorded in January. The recovery still has a long way to go—activity remains more than 25% below pre-pandemic levels—and we think this will be a gradual and uneven process. But the cyclical bottom may have been reached. Balanced, if slightly tight demand-supply conditions are relieving some of the downward pressure that drove prices down slightly during the fall. Median prices for both single family homes and condo apartments increased in February—up 2.8% m/m and 1.3%, respectively. We expect they'll follow a relatively flat trajectory in the near term before ascending more rapidly later this year.





Vancouver area — Buyers unmoved by sellers' return

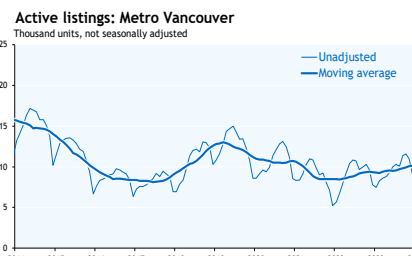
Sellers made their way back to the market in February. New listings jumped 31% y/y, which works out to an 11% m/m increase on a seasonally adjusted basis. Coming on the heels of an even stronger rise in January, this reversed the sharp 23% drop new listings experienced last fall. But the recent widening of purchasing opportunities didn't get buyers going. By our calculations, home resales fell more than 7% between January and February. At 23% below the 10-year average, residential transaction activity is historically soft. We don't expect this softness to ease quickly. Affording the purchase of a home is extremely difficult in Vancouver and will continue to be a major constraint for buyers. Home prices in February appreciated for the first time in five months with the area's MLS HPI rising approximately 0.1% m/m (seasonally adjusted). While it may signal the end of the price correction, we see limited upside in the near term given the intense budget pressure most buyers are under. And further depreciation could ensue should sellers continue to enter the market in large numbers—some of whom potentially in distress in the face significantly higher interest rates.



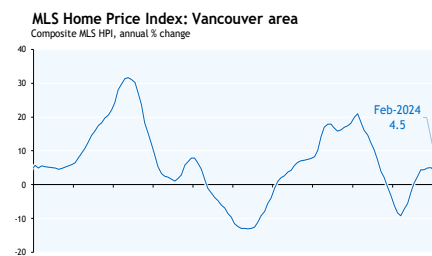
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics



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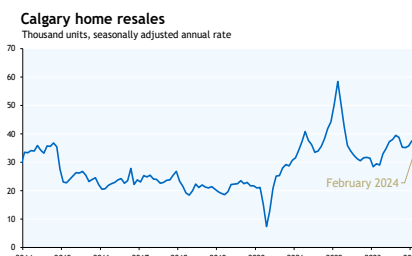
Source: Real Estate Board of Greater Vancouver, RBC Economics



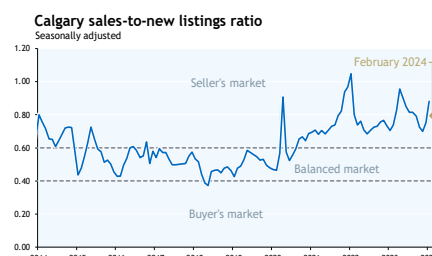
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Calgary — Still solid despite some volatility

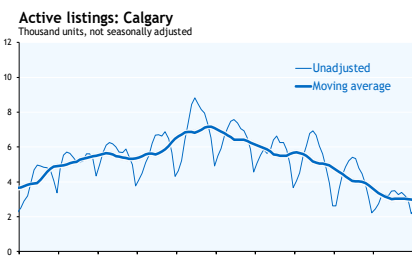
The Calgary market is easily the busiest—and hottest—in the country but its pace slowed down in February. We estimate home resales fell 8% m/m, reversing the prior two months' gains. We don't think the development signals anything other than normal month-to-month volatility. Resales still stand more than 60% above pre-pandemic levels. Housing demand remains exceptionally strong in the area, fueled by tremendous population growth. The sharp loss of affordability during the pandemic no doubt pinches many potential buyers though with demand-supply conditions so tight, many more are clearly in the game. Calgary prices are up the most over the past year among the markets we track. The rise in the MLS HPI clocked in 10.3% y/y February, little changed from the prior three months. We expect this stable trend to persist in the near term.



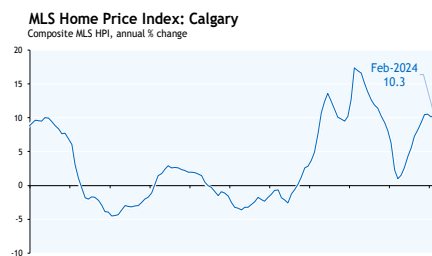
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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