

## CANADIAN HOUSING HEALTH CHECK

April 2019

### Largest four housing markets

**Toronto** — Very poor affordability is the main vulnerability. The mortgage stress test generates tensions but improves the longer-term vulnerability profile. Economic and demographic fundamentals are solid. Near-record condo construction isn't much of a threat as there are few signs of over-building. Housing prices have stabilized overall.

**Montreal** — One of Canada's most vibrant markets with a generally positive risk/vulnerability profile. A strong economy and rising foreign involvement fuel buyer interest. Demand-supply conditions are tight and prices are accelerating moderately. An erosion of affordability and booming rental apartment construction warrant close monitoring.

**Vancouver** — Despite recent improvement, affordability remains at a crisis level and the number one source of vulnerability. Policy measures cooled the market significantly and continue to pose near-term downside risks. Prices are now falling and expected to decline further in the coming months. A re-acceleration of population growth tempers risks associated with high construction levels.

**Calgary** — The energy sector's tough predicament continues to undermine confidence although a gradually improving job market should help eventually. Demand-supply conditions are soft, and support for prices is weak. Property values are poised to remain under downward pressure in the near term. High condo inventories remain an issue.

### Trimmed outlook for interest rates limits overall housing market risks in Canada

**Nation-wide:** A downward revision to our outlook for interest rates is reducing already-low odds of a steep and widespread housing downturn over the next 12 months in Canada.

**Local housing markets:** Property values in Vancouver, Calgary and other Prairie markets face downward pressure at present but aren't showing signs of collapsing. Montreal (and Ottawa) exhibits a mostly positive risk/vulnerability profile while the picture is mixed in Toronto with some evidence of a turnaround beginning to emerge.

**Interest rates:** We now expect the Bank of Canada to stay on the sidelines for an extended period of time. This tempers interest rate risks across the country—especially in high-priced Vancouver and Toronto.

**Housing policy:** Adjustment to the new stress test has been slow in many areas and will continue to pose short-term challenges in some markets. In British Columbia, market-cooling measures introduced in 2018 added another layer of policy adjustment risk. Longer term, the tightening of mortgage and housing policy rules will reduce risks.

**Affordability:** The high cost of homeownership in Vancouver, Toronto and, increasingly, Montreal are a top vulnerability for Canada's major markets.

**Unemployment:** Labour market conditions are strong in the majority of provinces and generally provide solid support for local housing markets. Conditions are improving Alberta and Saskatchewan though still pose higher-than-usual risks at present.

**Oil sector difficulties:** Crude oil transportation constraints generate substantial economic uncertainty in the Prairie provinces. This uncertainty—and the negative impact it has on confidence—poses a risk to housing markets in these regions.

**Strong condo construction:** Elevated levels of apartment construction in Vancouver, Toronto and Montreal raise some potential longer-term absorption issues. There's little risk near term, however, as unsold inventories are low at the present time.

### Monitoring dashboard

	Canada	Vancouver	Calgary	Toronto	Montreal
Affordability	●	●	●	●	●
Resale market balance	●	●	●	●	●
Rental market balance	●	●	●	●	●
Interest rates	●	●	●	●	●
Labour market	●	●	●	●	●
Demographics	●	●	●	●	●
New home inventory - singles	●	●	●	●	●
New home inventory - multiples	●	●	●	●	●
Homes under construction - singles	●	●	●	●	●
Homes under construction - multiples	●	●	●	●	●

- Significantly outside historical norms and posing much higher risk than usual
- Modestly outside historical norms and posing moderately higher risk than usual
- Within historical norms or not posing any immediate threat



## Background

*Canadian Housing Health Check* provides RBC Economics' assessment of key indicators of Canada's housing market that are deemed to offer early warning of potential imbalances. This monitoring exercise is one of the tools used regularly by RBC Economics to follow developments in this important sector of the Canadian economy. The report focuses on indicators that have been closely correlated (leading or coincident) with housing downturns and significant home price declines during housing cycles in the past three decades or so. While we believe that housing affordability and the sales-to-new listings ratio (and months' inventory) are the best indicators of market stress and price pressure, respectively, no single indicator provides perfect and accurate early warning signals of impending trouble. Accordingly, *Canadian Housing Health Check* emphasizes a 'dashboard' approach to convey the point that trouble in the housing market can arise from many directions and that it is imperative to monitor the situation broadly. This approach is complemented by a detailed review of individual indicators that includes a graphical depiction of the current situation within a historical context and a brief discussion of the rationale of our assessment.

### About the graphics and risk 'zone' system

The dashboard graphics display the current values of the indicators (dark blue bar) within zones that we consider safe (green), concerning (yellow) or dangerous (red). The width of each graphics represents the range of values posted by the indicator during the past 30 years (or period of time available). The far left corresponds to the safest measure ever recorded and the far right, to the most extreme imbalance reached historically. For most indicators, the left corresponds to low values but for some (sales-to-new listings ratio and net immigration) to high values.

The yellow and red zones appearing in dashboard graphics and individual indicator charts generally were determined by analyzing past housing downturns and constitute our estimations of thresholds above (or, in some cases, below) which market imbalances and significant home price declines occurred at the national level in Canada. The yellow zone comprises a range of values that, historically, have been mostly associated with imbalances but not always with housing downturns (i.e. sustained price declines). In other words, these values give somewhat ambiguous and sometimes 'false' signals. The red zone, however, comprises values that represent imbalances much more clearly and of larger magnitude. An indicator in the red zone should be considered a source of worry. The farther to the right in the red zone in the dashboard graphics are the values, the more extreme is the imbalance, the more intense is the stress exerted on the market and, ultimately, the more severe the potential correction.

The specific rules at the national level are as follows:

- **RBC Affordability Measure for the aggregate of all housing types:** yellow threshold = 41.5% (0.3 standard deviations above the long-term mean); and red at 45.1% (1.0 standard deviations above the mean).
- **Sales-to-new listings ratio:** yellow threshold = 0.40; and red = 0.35.
- **Months of inventory:** yellow threshold = 7.0; red = 8.5.
- **Rental vacancy rate:** yellow threshold = 3.2% (long-term mean); and red = 3.7% (0.5 standard deviations above the mean).
- **Real 5-year bond yield relative to trailing 12-month average:** yellow threshold = 1.0 percentage point (1 standard deviation above the mean); red = 2.0 percentage points (2 standard deviations).
- **Unemployment rate relative to trailing 12-month average:** yellow threshold = 0.41 percentage points (0.6 standard deviation above the mean); red = 0.9 percentage points (1.5 standard deviations).
- **Net immigration per 1,000 population:** yellow threshold = 6.5 (0.5 standard deviations above the mean); red = 5.0 (0.4 standard deviations below the mean).
- **Completed and unoccupied units per 1,000 population, singles and semis:** yellow threshold = 0.29 (0.3 standard deviations above the mean); red = 0.36 (1.3 standard deviation above the mean).
- **Completed and unoccupied units per 1,000 population, multiples:** yellow threshold = 0.36 (the mean); red = 0.47 (0.9 standard deviation above the mean).
- **Housing under construction per 1,000 population, singles:** yellow threshold = 2.11 (0.5 standard deviations from the mean); red = 2.33 (1 standard deviation from the mean).
- **Housing under construction per 1,000 population, multiples:** yellow threshold = 3.93 (0.5 standard deviations from the mean); red = 4.58 (1 standard deviation from the mean).

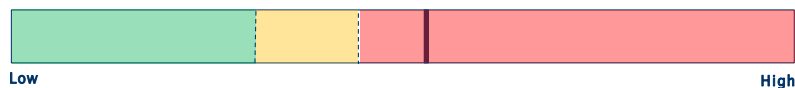
The areas shaded in grey in the indicator charts correspond to housing downturns – i.e., periods during which home prices (as defined as average prices of homes sold on the MLS system) fell by more than 5% from monthly peak to trough. It is important to note that the precise timing of these downturns can vary depending on the home price measure used. The grey shaded areas, therefore, should be seen as broad guidelines.



## CANADA

## Affordability

## Risk implications

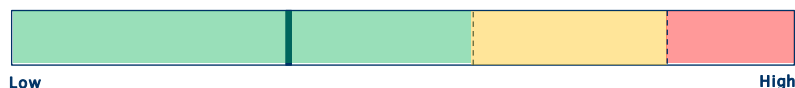
RBC affordability measure  
– aggregateNear-term: negative  
Medium-term: negative

## Existing home market balance

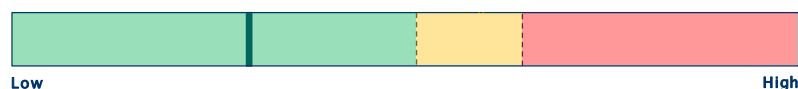
Sales-to-new listings ratio

Near-term: neutral  
Medium-term: neutral

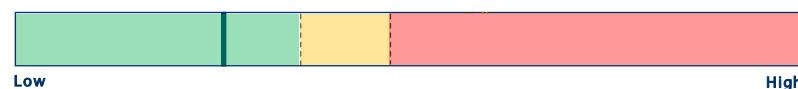
Months of inventory

Near-term: neutral  
Medium-term: neutral

Rental vacancy rate

Near-term: positive  
Medium-term: positive

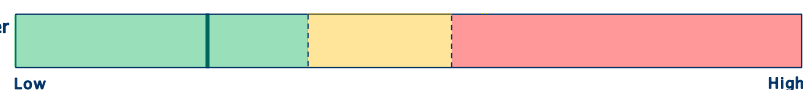
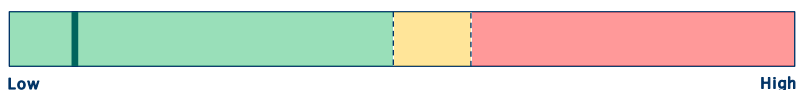
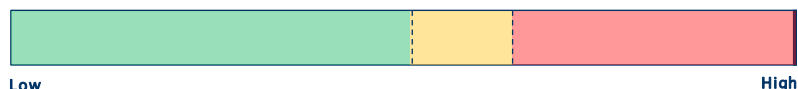
## Demand fundamentals

Change in real 5-Year bond  
yieldsNear-term: positive  
Medium-term: neutralChange in the unemployment  
rateNear-term: positive  
Medium-term: positive

Net immigration rate

Near-term: positive  
Medium-term: positive

## Supply fundamentals

Completed and unsold units  
per capita – singles and semisNear-term: neutral  
Medium-term: neutralCompleted and unsold units per  
capita – multiplesNear-term: positive  
Medium-term: positiveHousing under construction  
per capita – singlesNear-term: positive  
Medium-term: positiveHousing under construction  
per capita – multiplesNear-term: neutral  
Medium-term: negative

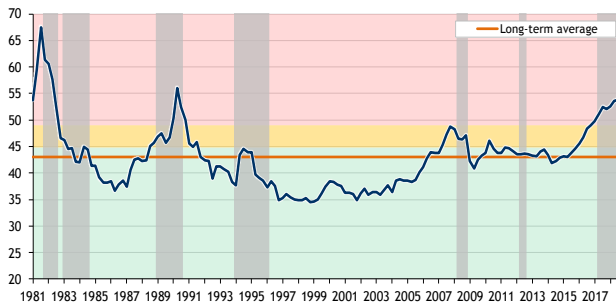


## CANADA

### Affordability

#### RBC affordability measure - aggregate

Ownership costs as % of household income, Canada



Source: RBC Economics Research, Brookfield RPS, Statistics Canada, Bank of Canada, Royal LePage

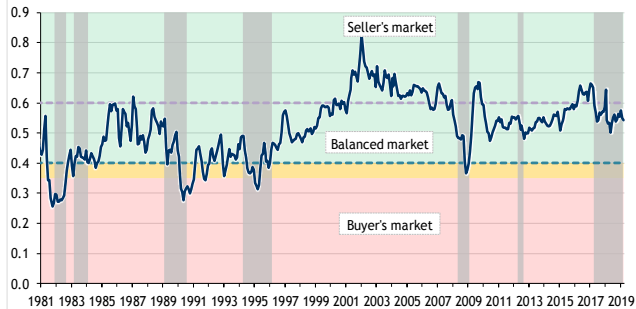
**Poor affordability remains a significant source of vulnerability in Canada despite signs improvement since the fall.**

RBC's aggregate housing affordability measure fell slightly from 52.6% in Q3 2018 to 51.9% in Q4 though the historically high level still suggests the presence of significantly greater-than-average market stress for buyers in Canada. That being said, affordability pressure is concentrated in Vancouver and Toronto where conditions remain quite extreme. The situation is not alarming in most other markets.

### Existing home market balance

#### Sales-to-new listings ratio

Monthly, S.A., Canada



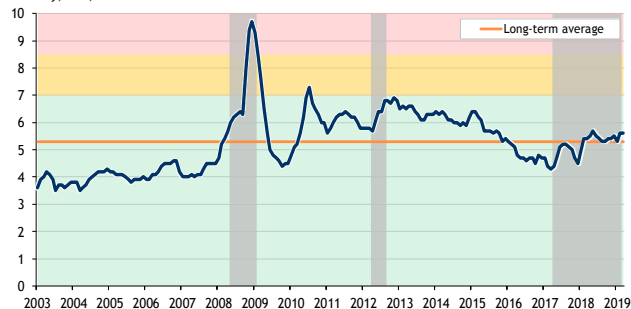
Source: RBC Economics Research, Canadian Real Estate Association

**Demand-supply conditions are balanced overall. This means that the odds of a price collapse are low on a national scale.**

Canada-wide, the sales-to-new listings ratio settled into the range consistent with balanced market conditions after climbing into seller's market territory in 2016. This re-balancing was largely engineered by policy as the introduction of Ontario's Fair Housing Plan in April 2017, the mortgage stress test and new market-cooling measures announced in BC last year cooled resales significantly. Rising interest rates also played a role.

#### Months of inventory

Monthly, S.A., Canada



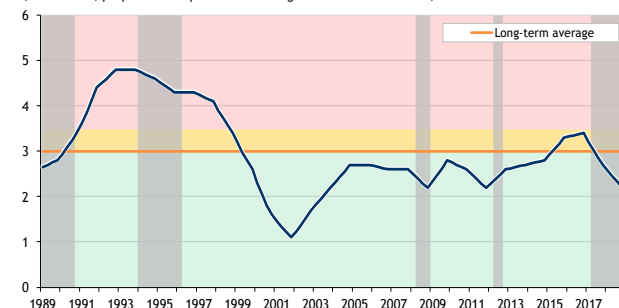
Source: RBC Economics Research, Canadian Real Estate Association

**The for-sale inventory is well within historical norms and consistent with continued price increases.**

A pick-up in active listings in Toronto and Vancouver (from historically low levels) amid a sharp drop in homebuyer demand returned the number of months of inventory in Canada closer to its long-run average of 5.3 from decade-low levels in early 2017.

#### Rental vacancy rate

%, total CMAs, purpose-built apartment buildings of three units or more, Canada



Source: RBC Economics Research, CMHC

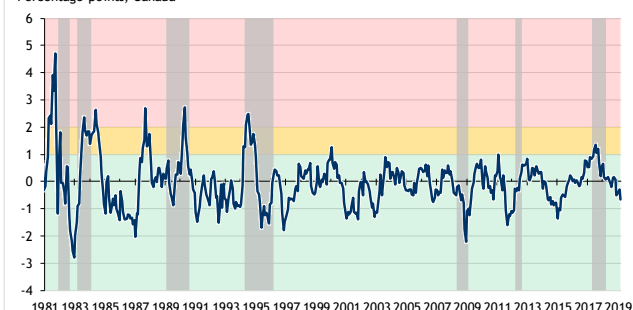
**The rental market is tight overall in Canada and does not pose a threat to the home purchase market.**

The rental vacancy rate in Canada fell to a seven-year low of 2.2% in October 2018 from 2.7% in 2017 and 3.4% in 2016. This is below the long-term average of 3.0%. The decline in the past two years was widespread across the country.

## CANADA

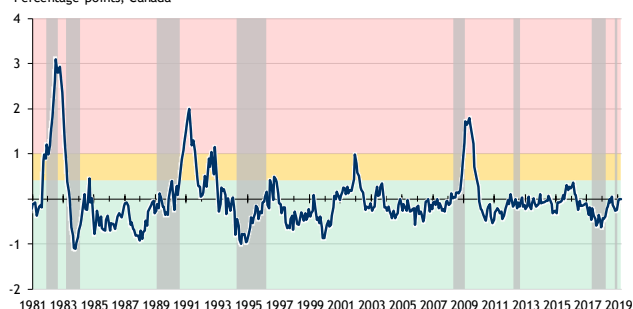
## Demand fundamentals

**Real 5-year bond yields relative to trailing 12-month average**  
Percentage points, Canada



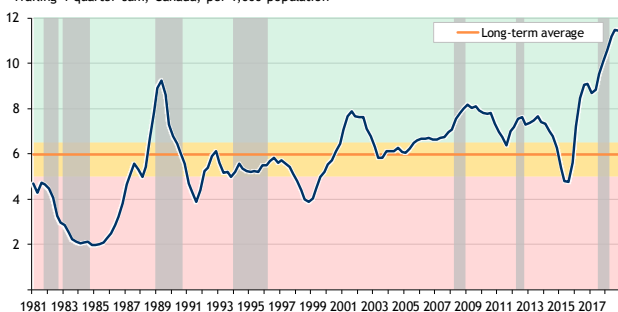
Source: RBC Economics Research, Bank of Canada, Statistics Canada

**Unemployment rate relative to trailing 12-month average**  
Percentage points, Canada



Source: RBC Economics Research, Statistics Canada

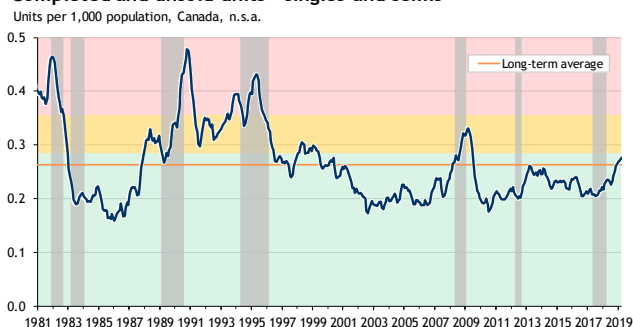
**Net immigration rate**  
Trailing 4-quarter sum, Canada, per 1,000 population



Source: RBC Economics Research, Statistics Canada

## Supply fundamentals

**Completed and unsold units - singles and semis**



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The risk of an interest rate shock eased significantly since the fall thanks to a pullback in longer-term interest rates. With the Bank of Canada now taking an extended pause in its rate hiking campaign, interest rate risks have subsided considerably.**

The rising trend in the five-year Government of Canada bond yield turned south since the late stages of 2018 as global investors cut their risk appetite amid increased economic uncertainty. The real yield is now below its 12-month trailing average, which is positive for the housing market.

RBC's base-case interest rate forecast calls for the overnight rate to remain unchanged at 1.75% through 2019 and 2020. RBC expects longer-term rates to rebound only partially from their current lows. This scenario would pose little risk to the housing market in the period ahead.

### Labour market conditions are still positive.

The national unemployment rate is near its lowest level since the mid-1970s and RBC Economics expects it to stay historically low this year and next. The rate has been below its trailing 12-month average over most of the period since May 2016.

### Decades-high levels of immigration improve the risk profile of Canada's housing market.

The rate of net immigration in Canada (measured per 1,000 population) has surged since late-2015, which provides strong support for housing demand.

The rate is likely to remain elevated in light of the federal government boosting its target for new permanent residents from 300K in 2017 to 310K in 2018, and further to 330K in 2019, 340K in 2020 and 350K in 2021.

### There are few signs of excess supply of new single-detached units in Canada.

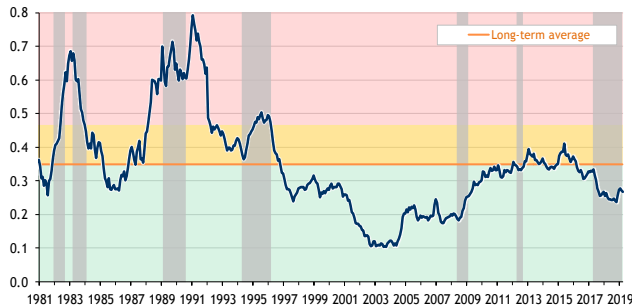
The unsold inventory (measured on a per capita basis) is near its long-run average, although it has picked up somewhat since the middle of 2017.

## CANADA

## Supply fundamentals

## Completed and unsold units - multiples

Units per 1,000 population, Canada, n.s.a.



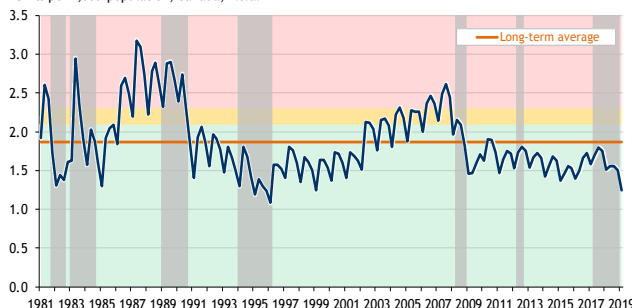
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The inventory of completed but unsold multi-unit dwellings also is low in Canada.**

It remains near a 10-year low on a per 1,000 population basis despite ticking slightly higher in recent months.

## Housing under construction - singles

Units per 1,000 population, Canada, n.s.a.



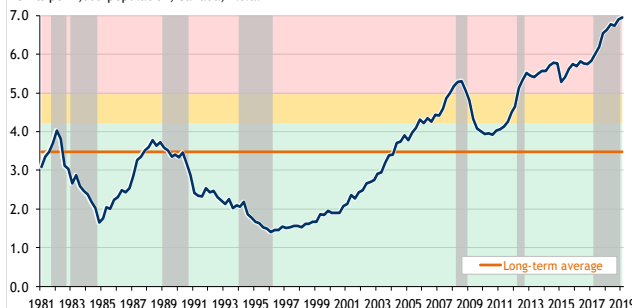
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**We remain unconcerned about overbuilding in the single family home segment.**

Construction levels are well below historical averages (when measured on a per 1,000 population basis).

## Housing under construction - multiples

Units per 1,000 population, Canada, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**On the multiples side, however, record-high levels of apartments under construction in Canada generate some degree of absorption risks over the medium term.**

Nonetheless, strong apartment construction should be weighed against solid demand for lower-priced housing options in markets such as Vancouver and Toronto.

Most of the units being built are in the Toronto (31% of total), Vancouver (17%) and Montreal (13%) areas.

The run-up in condo building over the past two decades in large part reflected structural changes to the market that arose from policy (e.g. rules limiting urban sprawl) and affordability (condo apartments are the more affordable housing type) considerations, and therefore, represents a market share gain against single-family homes.





## GREATER TORONTO AREA

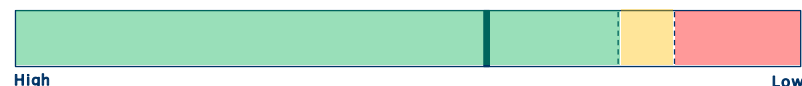
## Affordability

## Risk implications

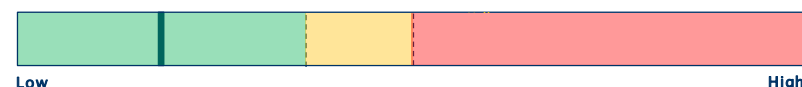
RBC affordability measure  
– aggregateNear-term: negative  
Medium-term: negative

## Existing home market balance

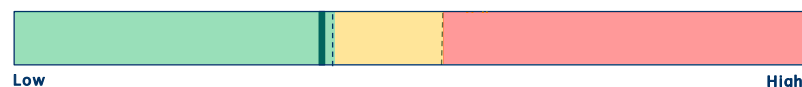
Sales-to-new listings ratio

Near-term: neutral  
Medium-term: neutralMonths of inventory –  
OntarioNear-term: positive  
Medium-term: neutral

Rental vacancy rate

Near-term: positive  
Medium-term: positive

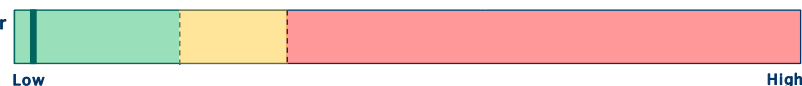
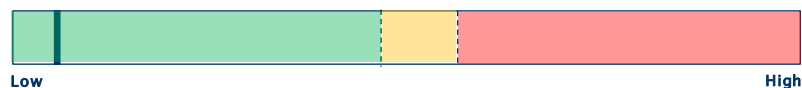
## Demand fundamentals

Change in real 5-Year bond  
yieldsNear-term: positive  
Medium-term: neutralChange in the unemployment  
rateNear-term: neutral  
Medium-term: neutral

Population growth

Near-term: positive  
Medium-term: positive

## Supply fundamentals

Completed and unsold units per  
capita – singles and semisNear-term: positive  
Medium-term: positiveCompleted and unsold units per  
capita – multiplesNear-term: positive  
Medium-term: positiveHousing under construction  
per capita – singlesNear-term: positive  
Medium-term: positiveHousing under construction  
per capita – multiplesNear-term: neutral  
Medium-term: neutral

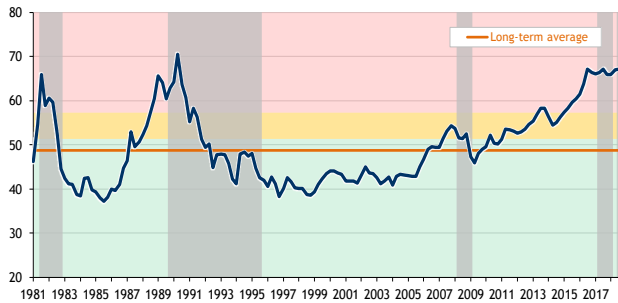


## GREATER TORONTO AREA

### Affordability

#### RBC affordability measure - aggregate

Ownership costs as % of household income, Toronto



Source: RBC Economics Research, Brookfield RPS, Statistics Canada, Bank of Canada, Royal LePage

**RBC's measure of affordability for the GTA continues to be excessively poor. It's one of the main factors behind the significant cooling in activity and recent price correction.**

Most of the affordability pressure is concentrated in the single-family home side of the market; however, some degree of stress is also present in the condo segment.

### Existing home market balance

#### Sales-to-new listings ratio

Monthly, S.A., Toronto



Source: RBC Economics Research, Canadian Real Estate Association

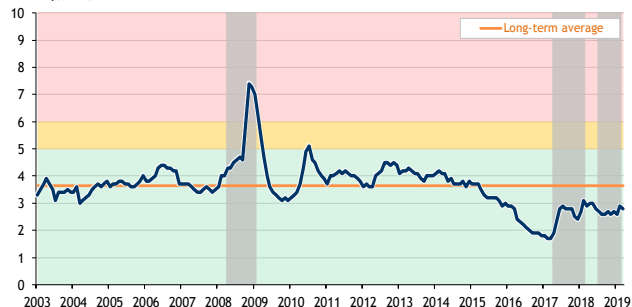
**Demand-supply conditions have been generally balanced in the past couple of years despite the significant cooling in the market.**

Ontario's Fair Housing Plan (April 2017) and OFSI's updated B-20 guideline (January 2018, which included a stress test for uninsured mortgages) led to a sharp re-balancing of demand and supply, with higher-end market segments bearing the brunt of the adjustments.

**Prices have stabilized for the most part after ceding some ground in 2017 and parts of 2018. Property values continue to face downward pressure in some market segments (e.g. single-detached homes in certain pockets of the region).**

#### Months of inventory

Monthly, S.A., Ontario



Source: RBC Economics Research, Canadian Real Estate Association

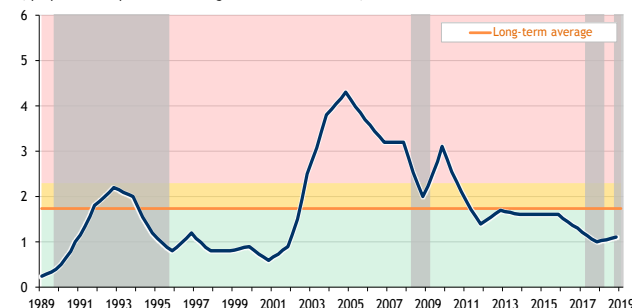
**Inventories of homes for sales (active listings) indicate that some degree of market tightness persists provincially.**

Data available at the provincial level shows that there were 2.8 months' worth of inventory in Ontario, still noticeably lower than the long-run average of 3.6.

Separate data from the Toronto Real Estate Board show that the number of months of inventory in the Toronto area was 2.7 in March 2019, up from 2.3 a year earlier.

#### Rental vacancy rate

%, purpose-built apartment buildings of three units or more, Toronto



Source: RBC Economics Research, CMHC

**GTA's rental market continues to be very tight with the vacancy rate at 1.1% in the fall of 2018—still near a 16-year low.**

**Toronto's condo boom hasn't flooded the rental market or cause vacancies to rise materially.**

Toronto Real Estate Board statistics show strong condo rental activity rising nearly 8% in Q1/2019 from a year earlier. Strong demand relative to available supply applies intense upward pressure on rent (up 7.4% y/y for a one-bedroom apartment).

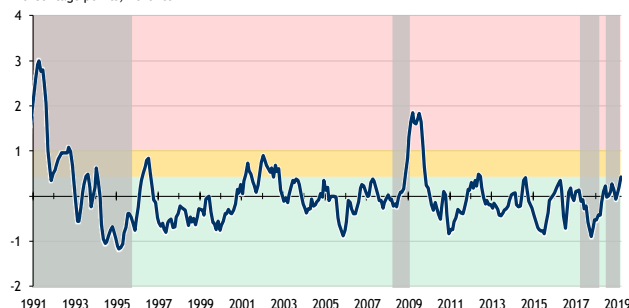


## GREATER TORONTO AREA

### Demand fundamentals

#### Unemployment rate relative to trailing 12-month average

Percentage points, Toronto



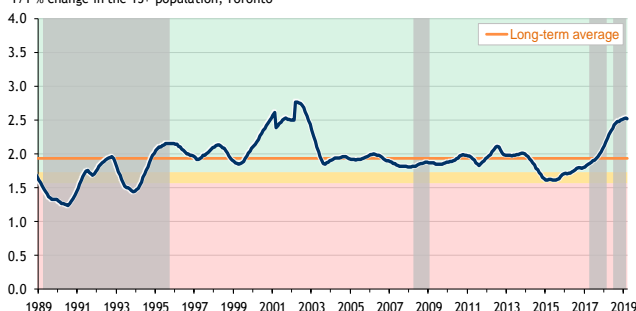
Source: RBC Economics Research, Statistics Canada

**Labour market conditions in the GTA continue to be generally supportive for the area's housing market.**

Toronto's unemployment rate is near a decade low but ticked slightly higher in recent months. Any further increase could become an issue for home-buyer demand.

#### Adult population growth

Y/Y % change in the 15+ population, Toronto



Source: RBC Economics Research, Statistics Canada

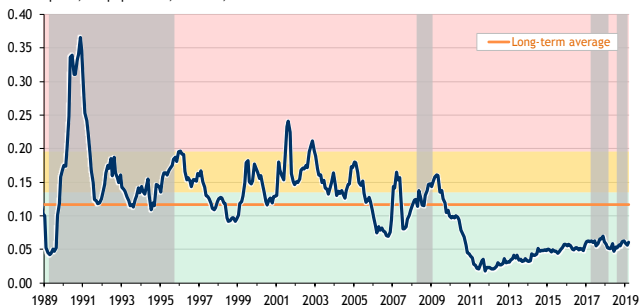
**Demographic fundamentals are very solid in the GTA. In fact, they strengthened even more in the past couple of years with the rate of growth in adult population accelerating to a 15-year high of 2.5% since the late stages of 2018.**

A rate below 1.5% would be a source of concern.

### Supply fundamentals

#### Completed and unsold units - singles and semis

Units per 1,000 population, Toronto, n.s.a.



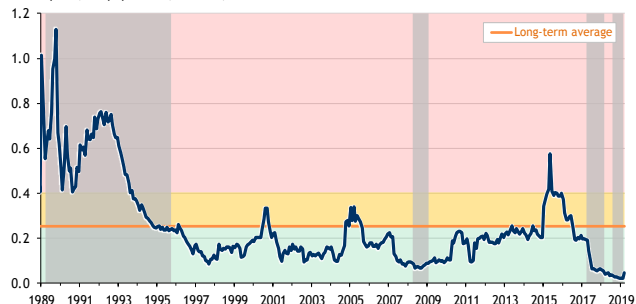
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**There are no indications of overbuilding of single-family homes in the area at present.**

Inventories of newly completed and unsold the single-family continue to be historically low.

#### Completed and unsold units - multiples

Units per 1,000 population, Toronto, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The unsold inventory of newly built condos is effectively entirely depleted.**

The unabsorbed inventory fell to an all-time low of 0.02 units per 1,000 population in late-2018 before rebounding slightly in March 2019.

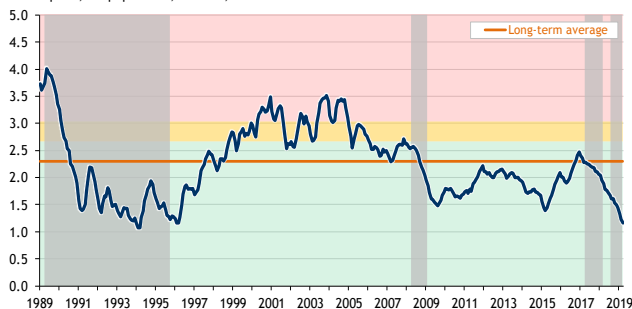


## GREATER TORONTO AREA

### Supply fundamentals

#### Housing under construction - singles

Units per 1,000 population, Toronto, n.s.a.



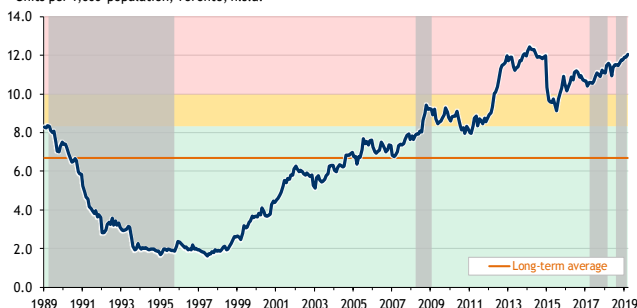
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

#### The single-unit dwelling construction pipeline is historically low.

The number of single-detached units under construction in the GTA has fallen since the spring of 2017 as builders slowed down the pace of new starts following Ontario's Fair Housing Plan. The most recent level of single-unit construction activity was well below the long-term average for the area when measured in per 1,000 population terms.

#### Housing under construction - multiples

Units per 1,000 population, Toronto, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

#### The number of multi-unit dwellings under construction is historically high—posing absorption risks.

However, the potential threat to the market is tempered by low unsold condo inventories and strong demand in the existing condo market.

Market absorption has been very strong in recent years, which indicates that current construction levels are unlikely to be excessive. We see only limited risks of trouble for the condo resale and/or rental markets.



## GREATER MONTREAL AREA

### Affordability

### Risk implications

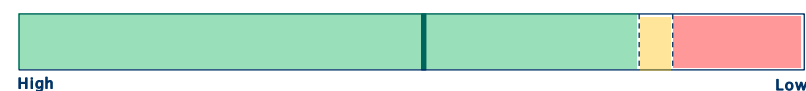
RBC affordability measure  
– aggregate



Near-term: neutral  
Medium-term: negative

### Existing home market balance

Sales-to-new listings ratio



Near-term: positive  
Medium-term: positive

Months of inventory –  
Quebec



Near-term: positive  
Medium-term: positive

Rental vacancy rate



Near-term: positive  
Medium-term: positive

### Demand fundamentals

Change in real 5-Year bond  
yields



Near-term: positive  
Medium-term: neutral

Change in the unemployment  
rate



Near-term: neutral  
Medium-term: neutral

Population growth



Near-term: positive  
Medium-term: positive

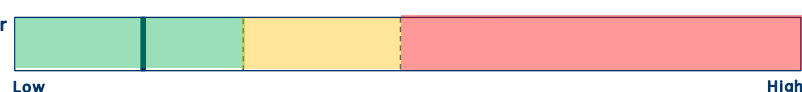
### Supply fundamentals

Completed and unsold units per  
capita – singles and semis



Near-term: positive  
Medium-term: positive

Completed and unsold units per  
capita – multiples



Near-term: positive  
Medium-term: positive

Housing under construction  
per capita – singles



Near-term: positive  
Medium-term: positive

Housing under construction  
per capita – multiples



Near-term: neutral  
Medium-term: negative

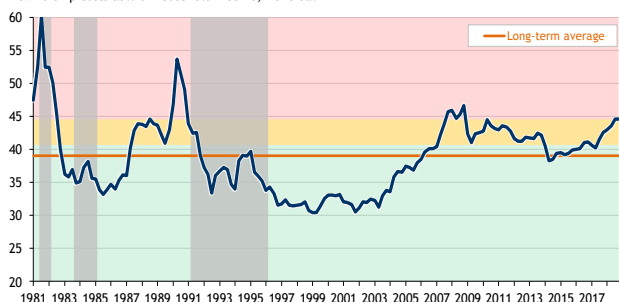


## GREATER MONTREAL AREA

### Affordability

#### RBC affordability measure - aggregate

Ownership costs as % of household income, Montreal



Source: RBC Economics Research, Brookfield RPS, Statistics Canada, Bank of Canada, Royal LePage

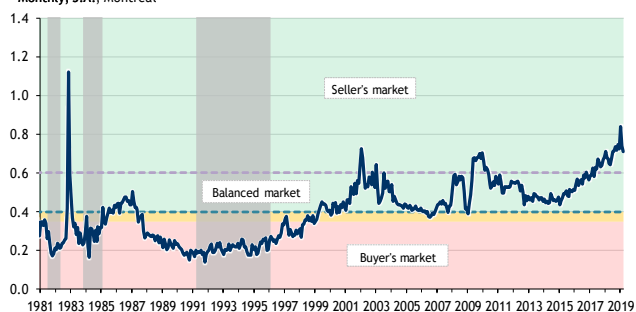
**Deteriorating affordability is starting to strain Montreal buyers. Ownership costs have risen steadily since early 2015.**

RBC's aggregate measure most recently was 44.5%, at the threshold indicating higher vulnerability.

### Existing home market balance

#### Sales-to-new listings ratio

Monthly, S.A., Montreal



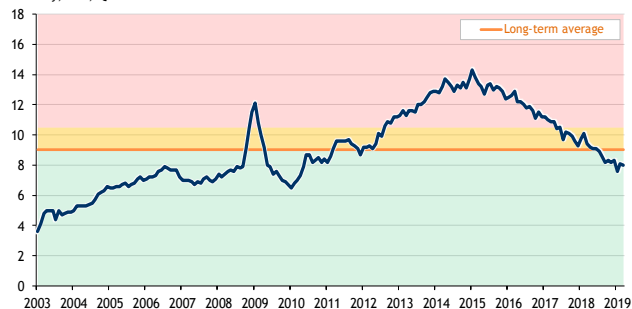
Source: RBC Economics Research, Canadian Real Estate Association

**Tight demand-supply conditions in the Montreal area suggests that prices will continue to rise solidly in the period ahead. The risk of a sharp decline is low in the near term.**

Home resales were up by 6% y/y in the first quarter of 2019. Robust sales activity took place amid steady decline in the number of homes put up for sale each month, which resulted in a significant drop in inventories.

#### Months of inventory

Monthly, S.A., Quebec



Source: RBC Economics Research, Canadian Real Estate Association

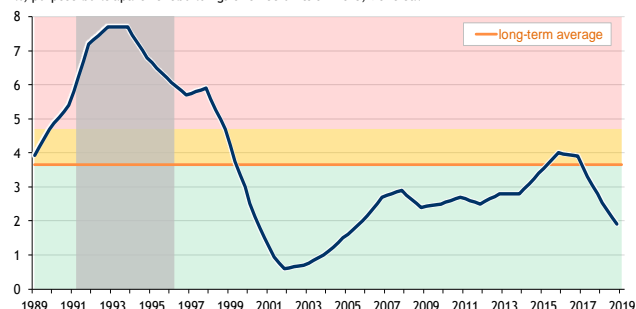
**Provincial inventory data provide further evidence of firming market conditions and low risk of imminent price declines in Montreal.**

The number of months' inventory continues to trend downwardly overall in Quebec and is now the 'low-risk zone'.

Greater Montreal Real Estate Board data show that the number of months' inventory was relatively low at 5.0 in March 2019 for single-detached homes and 6.0 for condos—both indicating that sellers are in command.

#### Rental vacancy rate

%, purpose-built apartment buildings of three units or more, Montreal



Source: RBC Economics Research, Statistics Canada

**The risk of oversupply in Montreal's rental market diminished significantly in the last two years. The rental vacancy rate fell from 3.9% in October 2016 to a 14-year low of 1.9% in October 2018. It is now in low-risk territory.**

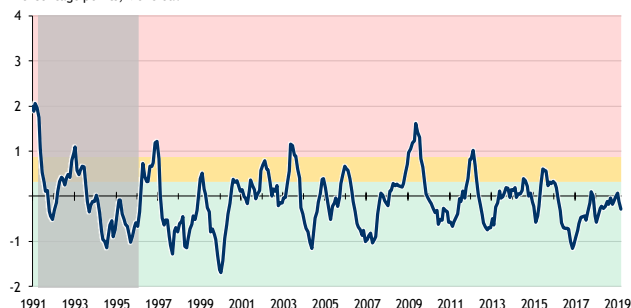
That being said, a record-high 15,100 purpose-built rental units are under construction in the Montreal area. Completion of these units may put upward pressure on the vacancy rate in the coming years.

## GREATER MONTREAL AREA

### Demand fundamentals

#### Unemployment rate relative to trailing 12-month average

Percentage points, Montreal



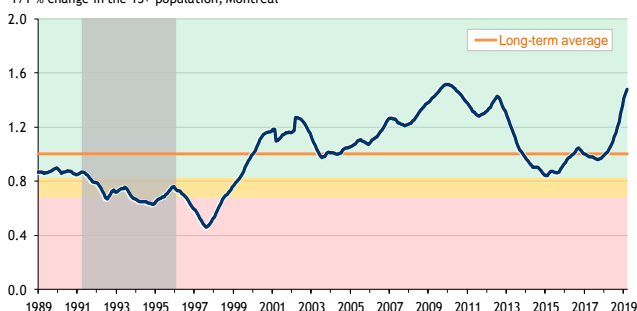
Source: RBC Economics Research, Statistics Canada

**Montreal's job market remains generally healthy and offers strong support for the housing market.**

The unemployment continues to trend downwardly, reaching 5.7% in March 2019, near the lowest point on records dating back to 1987.

#### Adult population growth

Y/Y % change in the 15+ population, Montreal



Source: RBC Economics Research, Statistics Canada

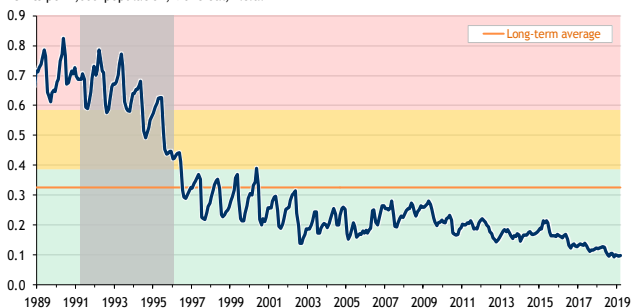
**Overall demographic conditions also offer strong support.**

Montreal's adult population growth has accelerated markedly since mid-2015 to an eight-year high of 1.5% in early-2019, widely exceeding the long-term average of 1.0%.

### Supply fundamentals

#### Completed and unsold units - singles and semis

Units per 1,000 population, Montreal, n.s.a.



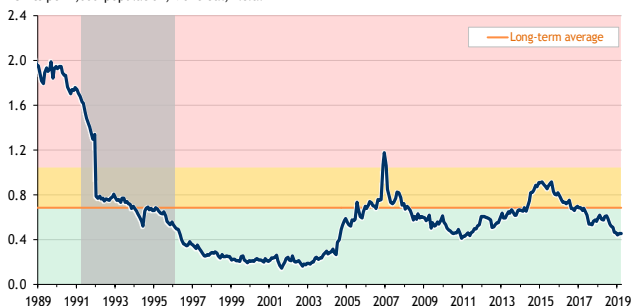
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**There's no evidence of overbuilding in the single-family market segment.**

Newly completed homes remaining unsold are at an all-time low in the Montreal area.

#### Completed and unsold units - multiples

Units per 1,000 population, Montreal, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**There are no signs of overbuilding on the multi-unit dwelling side either. Strong market absorption in the past three years cut the unsold inventory to healthy levels since the middle of 2017.**

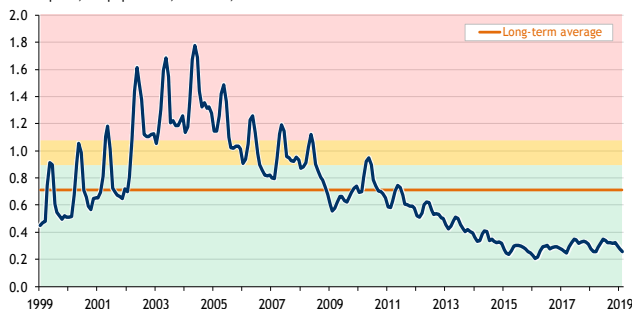
Unsold inventory fell to 0.45 units per 1,000 population in March 2019, the lowest level in eight years. It is well within the low-risk zone.

## GREATER MONTREAL AREA

### Supply fundamentals

#### Housing under construction - singles

Units per 1,000 population, Montreal, n.s.a.



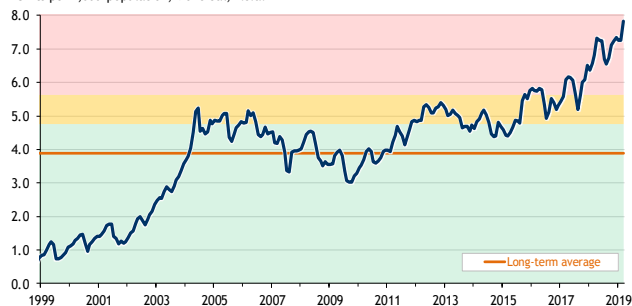
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The risk of any overbuilding of single-family homes in the short term is extremely remote.**

Current levels of construction are historically very low. This has been the case since 2015.

#### Housing under construction - multiples

Units per 1,000 population, Montreal, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**A potential risk of overbuilding of multi-unit dwellings is present in Montreal.**

The number of multi-unit dwellings under construction is at a record high in early 2019.

This in large part reflects a significant increase in purpose-built rental apartment projects. Condo units under construction also rose since mid-2017 but remain below their peak reached between 2012 and 2014.

Strong construction activity of higher-density housing categories partly reflects a structural shift from single-detached toward multiple-unit forms of housing. This shift is supported by urban development policy and affordability advantage relative to single-family homes.





## GREATER VANCOUVER AREA

### Affordability

### Risk implications

RBC affordability measure  
– aggregate



Near-term: negative  
Medium-term: negative

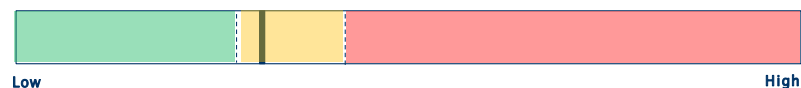
### Existing home market balance

Sales-to-new listings ratio



Near-term: negative  
Medium-term: negative

Months of inventory – BC



Near-term: neutral  
Medium-term: negative

Rental vacancy rate



Near-term: positive  
Medium-term: positive

### Demand fundamentals

Change in real 5-Year bond  
yields



Near-term: positive  
Medium-term: neutral

Change in the unemployment  
rate



Near-term: neutral  
Medium-term: neutral

Population growth



Near-term: neutral  
Medium-term: neutral

### Supply fundamentals

Completed and unsold units per  
capita – singles and semis



Near-term: neutral  
Medium-term: neutral

Completed and unsold units per  
capita – multiples



Near-term: positive  
Medium-term: positive

Housing under construction  
per capita – singles



Near-term: neutral  
Medium-term: neutral

Housing under construction  
per capita – multiples



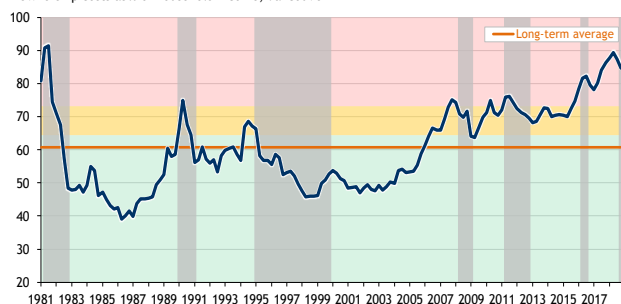
Near-term: neutral  
Medium-term: negative

## GREATER VANCOUVER AREA

### Affordability

#### RBC affordability measure - aggregate

Ownership costs as % of household income, Vancouver



Source: RBC Economics Research, Brookfield RPS, Statistics Canada, Bank of Canada, Royal LePage

**Housing affordability remains extremely poor and represents a major vulnerability for the Vancouver-area market.**

Affordability stress is found in both single-family and condo apartment categories; however, it is far more intense in the former.

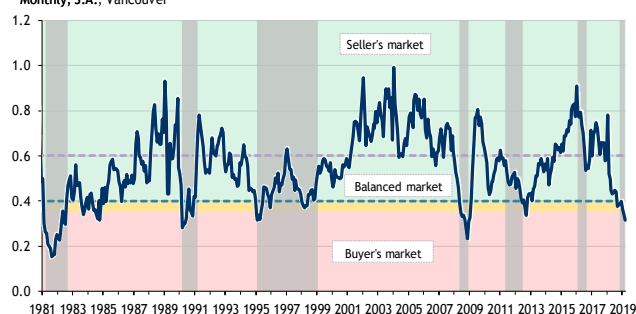
At 84.7% in Q4/2018, RBC's aggregate affordability measure for the area was near its worst level on record.

Poor affordability is likely among the factors that contributed to a significant moderation in home resales in the area since the winter of 2016. Policy changes—including the 15% foreign-buyer tax implemented in August 2016, OSFI's new stress test and a slew of additional market-cooling measures announced in the 2018 BC budget (including an increase to 20% of the foreign buyer tax)—as well as a rise in interest rates also likely contributed significantly.

### Existing home market balance

#### Sales-to-new listings ratio

Monthly, S.A., Vancouver



Source: RBC Economics Research, Canadian Real Estate Association

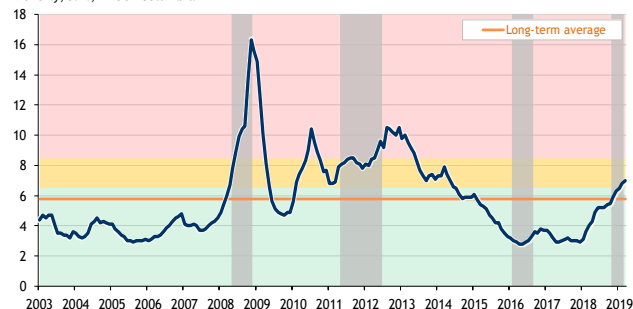
**The significant cooling of activity has tilted the market in favour of buyers.**

**Current demand-supply conditions are consistent with prices falling moderately. Downward price pressure could intensify, however, if demand softens further and/or home listed for sale increases.**

The sales-to-new listings ratio plummeted over the second half of 2018 and early-2019 to a level (0.32 in March) that historically gave a strong hand to buyers.

#### Months of inventory

Monthly, S.A., British Columbia



Source: RBC Economics Research, Canadian Real Estate Association

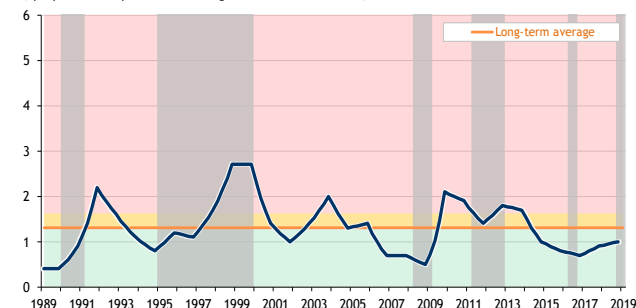
**The inventory of homes for sale is rising at a rapid clip in BC though it has yet to reach clearly excessive levels.**

The number of months' inventory in British Columbia surged from a low of 2.8 at the end of 2017 to 7.0 in March 2019. It is above the long-run average of 5.8.

The Real Estate Board of Greater Vancouver also reports rising levels of active listings from historically-low in 2016 and 2017. Despite the recent increase, active listings are still approximately 30% below their levels in 2012-2013.

#### Rental vacancy rate

%, purpose-built apartment buildings of three units or more, Vancouver



Source: RBC Economics Research, CMHC

**Vancouver's rental market shows no evidence of any looming surplus that would cause concerns for the home ownership market.**

Conditions remain very tight in Vancouver's rental market.

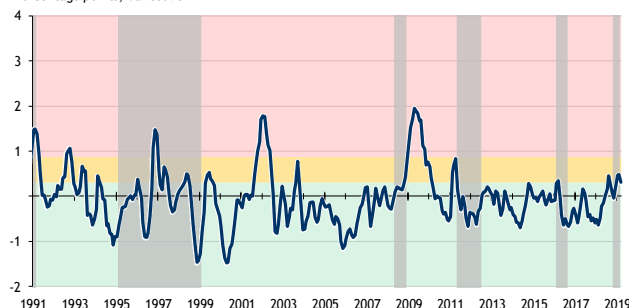
The area's rental vacancy rate was 1.0% in October 2018—among the lowest ones in the country—up marginally from 0.9% in October 2017.

## GREATER VANCOUVER AREA

### Demand fundamentals

#### Unemployment rate relative to trailing 12-month average

Percentage points, Vancouver



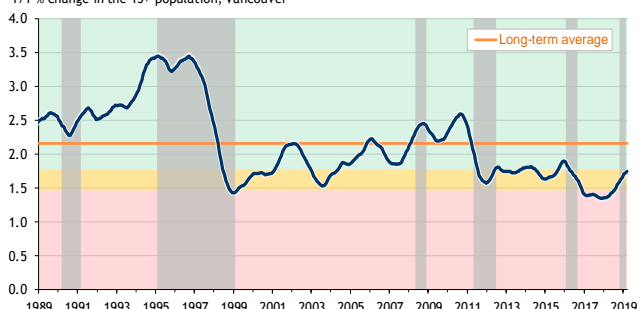
Source: RBC Economics Research, Statistics Canada

**Despite the unemployment rate rising a little bit in the past year, Vancouver's job market is still solid.**

The job situation in Vancouver continues to be broadly positive. The unemployment rate (which averaged 4.8% in the first three months of 2019) is among the lowest across Canada's larger urban areas. It has picked up slightly since reaching a decade low in early 2018, however.

#### Adult population growth

Y/Y % change in the 15+ population, Vancouver



Source: RBC Economics Research, Statistics Canada

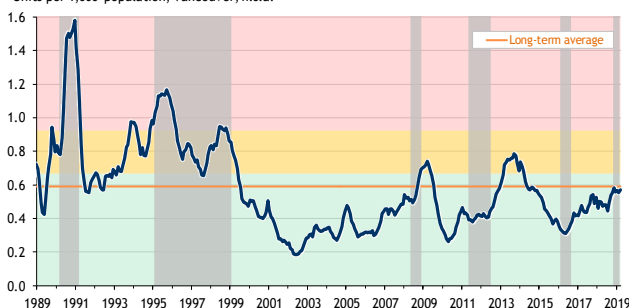
**A recent re-acceleration of population growth eased—albeit partly—earlier concerns about slowing demographics in Vancouver.**

The rate of growth in Vancouver's adult population (1.7% y/y in March 2019) is strong relative to most Canadian cities. A moderation in 2017 and early-2018 had raised some concerns in the face of elevated housing construction levels.

### Supply fundamentals

#### Completed and unsold units - singles and semis

Units per 1,000 population, Vancouver, n.s.a.



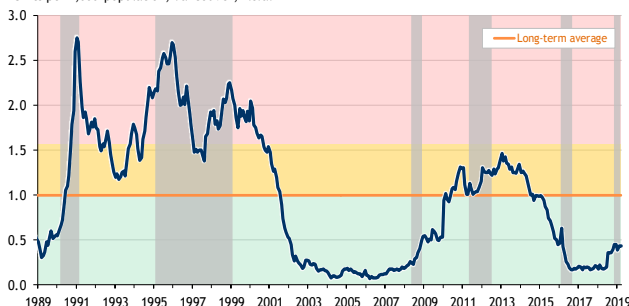
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The Vancouver-area market shows few signs of being overbuilt or becoming so in the near term.**

Inventories of recently completed and unsold single and semi-detached units are historically low. A modest easing in absorption last year, however, led to a small increase in those inventories—which still stood marginally below their long-range average on a per capita basis.

#### Completed and unsold units - multiples

Units per 1,000 population, Vancouver, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**The situation is similar for multi-unit dwelling units where unsold inventories remain abnormally low.**

Inventories rose slightly since mid-2018 due to a rise in condo unit completions.

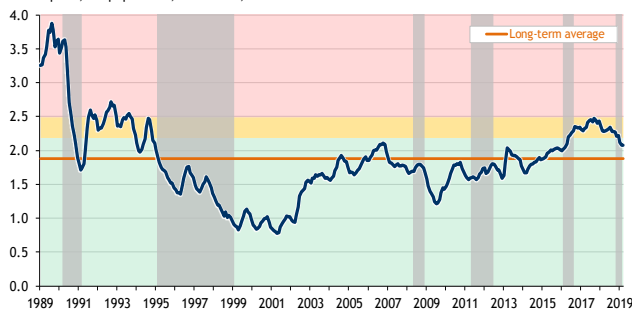


## GREATER VANCOUVER AREA

### Supply fundamentals

#### Housing under construction - singles

Units per 1,000 population, Vancouver, n.s.a.



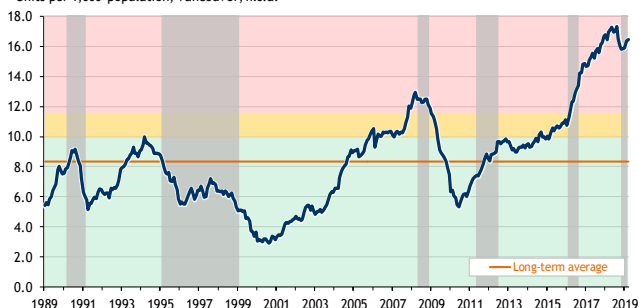
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**An earlier increase in single-detached homes under construction subsided in the latter part of 2018 and early-2019, and no longer poses a potential threat to the market.**

A sharp cooling of demand for high-priced properties caused single-detached housing starts to plunge to their lowest level in five years in 2018—taking down units under construction in the process.

#### Housing under construction - multiples

Units per 1,000 population, Vancouver, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**Record levels of multi-family dwelling construction point to greater-than-usual risk of market imbalance. However, such risk also is tempered by the low inventories of newly built and unsold units.**

Vancouver recorded its strongest ever levels of apartment starts in 2016, which resulted in a surge in the number of units under construction. Multiple unit starts moderated in both 2017 (down 4.1%) and 2018 (down 13.8%). This suggests that further easing of units under construction may be on the way in the period ahead.



## CALGARY AREA

### Affordability

### Risk implications

RBC affordability measure  
– aggregate



Near-term: positive  
Medium-term: positive

### Existing home market balance

Sales-to-new listings ratio



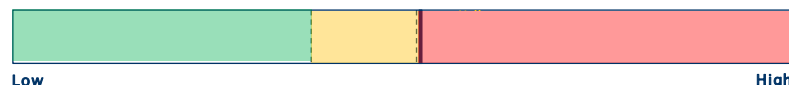
Near-term: neutral  
Medium-term: neutral

Months of inventory –  
Alberta



Near-term: negative  
Medium-term: negative

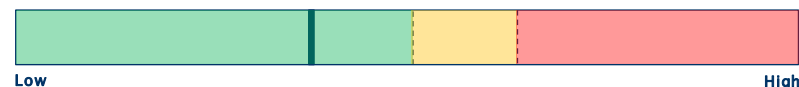
Rental vacancy rate



Near-term: negative  
Medium-term: negative

### Demand fundamentals

Change in real 5-Year bond  
yields



Near-term: positive  
Medium-term: neutral

Change in the unemployment  
rate



Near-term: neutral  
Medium-term: positive

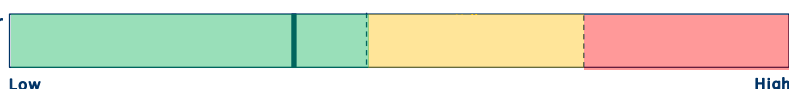
Population growth



Near-term: neutral  
Medium-term: neutral

### Supply fundamentals

Completed and unsold units per  
capita – singles and semis



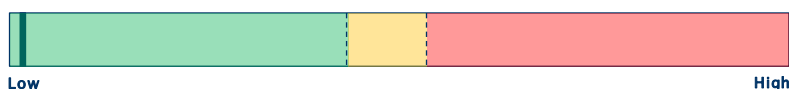
Near-term: neutral  
Medium-term: neutral

Completed and unsold units per  
capita – multiples



Near-term: negative  
Medium-term: negative

Housing under construction  
per capita – singles



Near-term: positive  
Medium-term: positive

Housing under construction  
per capita – multiples



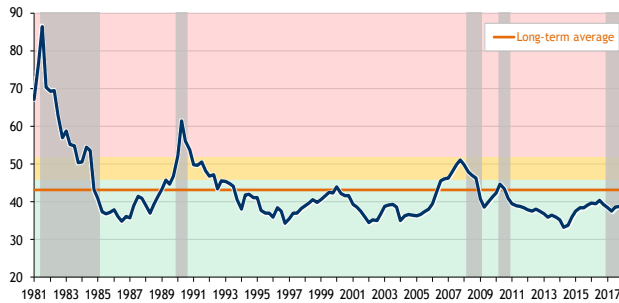
Near-term: neutral  
Medium-term: neutral

## CALGARY AREA

### Affordability

#### RBC affordability measure - aggregate

Ownership costs as % of household income, Calgary



Source: RBC Economics Research, Brookfield RPS, Statistics Canada, Bank of Canada, Royal LePage

#### Housing affordability continues to be a generally constructive factor for the Calgary market.

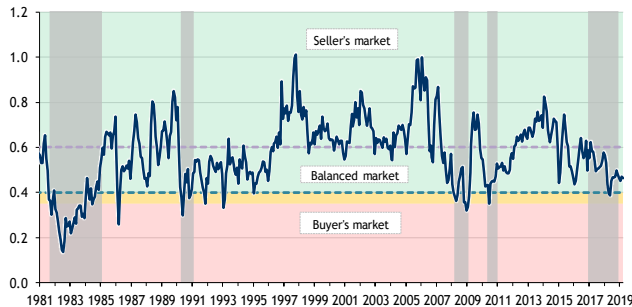
RBC's aggregate measure for the area has been mostly flat since 2015. It stood at 40.3% in Q4/2018—in the safe zone.

The Calgary market faces a number of issues (e.g. energy sector downturn, drop of confidence, persistently high unemployment rate); however, affordability is unlikely to be one of them.

### Existing home market balance

#### Sales-to-new listings ratio

Monthly, S.A., Calgary



Source: RBC Economics Research, Canadian Real Estate Association

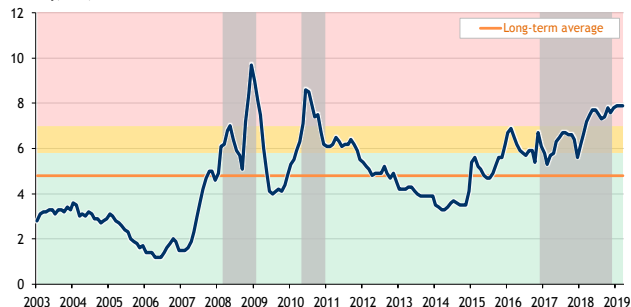
#### Demand-supply conditions are somewhat on the soft side which provides little support for prices.

Home resales in the area fell to a nine-year low in the first quarter of 2019. Energy sector volatility, economic uncertainty, the mortgage stress test and higher interest rates weighed heavily on demand.

The sales-to-new listings ratio dipped below 0.40 (the threshold of a buyer's market) in the spring of 2018 but rebounded slightly since then. While now hovering within balanced market territory, home prices remain under mild downward pressure.

#### Months of inventory

Monthly, S.A., Alberta



Source: RBC Economics Research, Canadian Real Estate Association

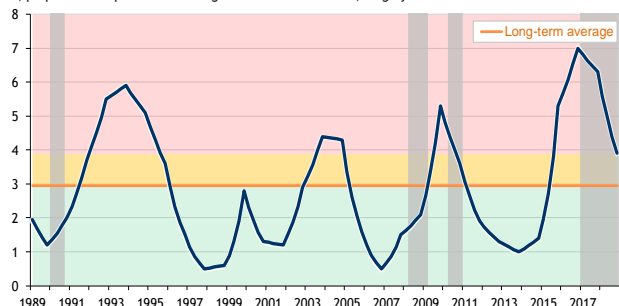
#### Plentiful for-sale inventories are an issue.

The number of months' inventory in Alberta is at an eight-year high of 7.9.

Active listings in the Calgary area were up 3% y/y in March 2019 according to the Calgary Real Estate Board. The strongest increases were for detached (up 10%) and attached (up 6%) homes.

#### Rental vacancy rate

%, purpose-built apartment buildings of three units or more, Calgary



Source: RBC Economics Research, Statistics Canada

#### Oversupply of rental units is improving.

The rental vacancy rate dropped materially from 6.3% in 2017 to 3.9% in 2018—though still historically high.

The decline in the vacancy rate relieved some of the downward pressure on rent values that prevailed over the 2015-2017 period. Average rent increased slightly by 1.9% in 2018.

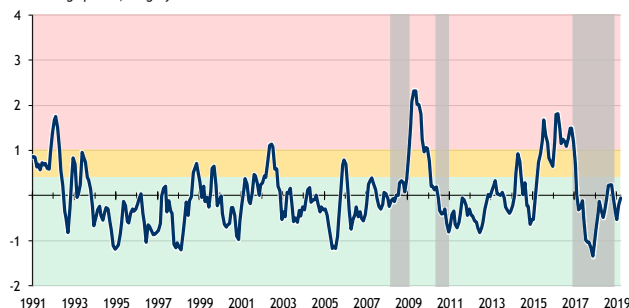


## CALGARY AREA

### Demand fundamentals

#### Unemployment rate relative to trailing 12-month average

Percentage points, Calgary



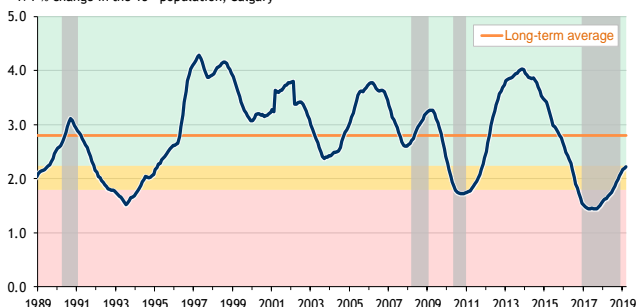
Source: RBC Economics Research, Statistics Canada

**A still-high unemployment rate continues to weigh on Calgary's housing market but the labour market is gradually improving.**

Job creation has resumed in the area after stalling in mid-2018. Employment was up 1.6% y/y in March 2019 while the unemployment rate eased by 0.5 percentage points from a year earlier. Further recovery should slowly bolster confidence.

#### Adult population growth

Y/Y % change in the 15+ population, Calgary



Source: RBC Economics Research, Statistics Canada

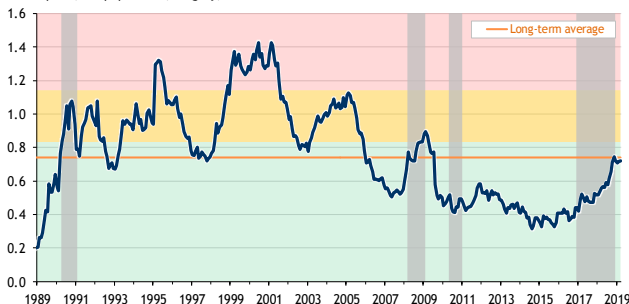
**Demographics-related risks eased in the past year as net population flows strengthened.**

Adult population growth has picked up since slumping in 2017, reaching 2.2% y/y in March, up from 1.5% in early 2017—but still below the longer-run average of 2.8%.

### Supply fundamentals

#### Completed and unsold units - singles and semis

Units per 1,000 population, Calgary, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

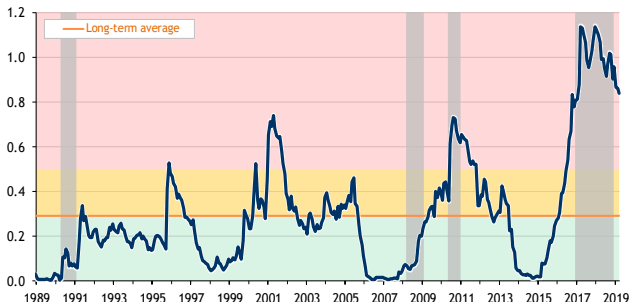
**A steady rise in unsold units isn't yet pointing to overbuilding in the single-detached segment.**

Despite doubling in the past three years, the number of unsold single-detached and semi-detached units now only matches the long-run average of 0.83 per 1000 population.

That number is unlikely to rise much further because single-detached home starts weakened noticeably in 2018.

#### Completed and unsold units - multiples

Units per 1,000 population, Calgary, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**However, there's strong evidence of a surplus in the multi-unit segment.**

The number of unabsorbed units have surged since the spring of 2015 (when Calgary arguably had a supply shortage) to record-high levels throughout most of 2017, 2018 and early-2019.

The stock of unsold units was driven higher by sharp increases in condo apartment completions in 2015 and 2016 at a time when demand turned cold. While declining materially, condo completions were still historically elevated in 2017 and 2018 (though to a lesser extent).

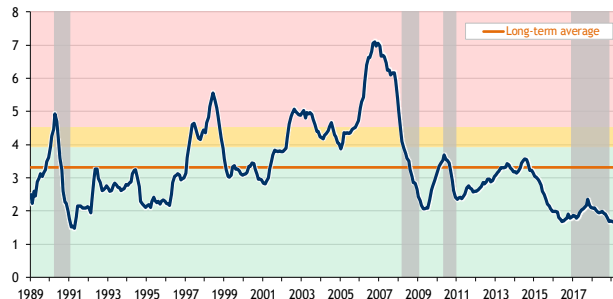


## CALGARY AREA

### Supply fundamentals

#### Housing under construction - singles

Units per 1,000 population, Calgary, n.s.a.



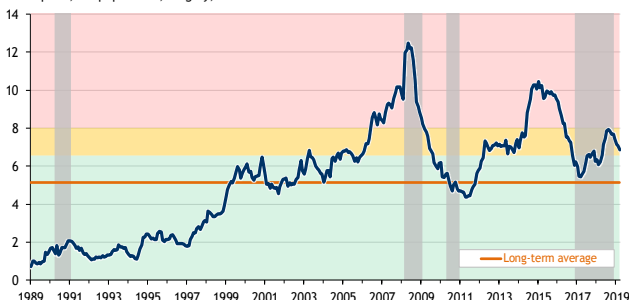
Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**Relatively few single-detached units under construction presently pose little threat to the market.**

The drop in single-detached home starts in the last four years sharply reduced the number of units under construction to historically low levels.

#### Housing under construction - multiples

Units per 1,000 population, Calgary, n.s.a.



Source: RBC Economics Research, Statistics Canada, Canada Mortgage and Housing Corporation

**Risks associated with high multi-unit dwelling construction are easing.**

The number of multi-dwelling units under construction is now declining as completions exceed new units started. That is likely to continue to be the case in the near term as condo apartment starts are still at about half the levels they were in 2014.

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