Home prices keep escalating in Canada but moderation may be coming

Canada’s housing mania toned down a notch in April as home resales reversed their clearly unsustainable spike of the previous two months. It may be an early sign some buyers are reaching their limit to engage in bidding wars. Soaring property values have significantly raised the bar for those contests. Yet, for now, prices continue to escalate. Despite easing in the past three months, demand-supply conditions remain incredibly tight, sustaining intense upward price pressure. Canada’s composite benchmark price (MLS Home Price Index) rose another $17,000 (2.4%) between March and April, pushing up the increase to $135,000 (23.1%) since April last year.

Buyers paid materially more in most local markets
Trends in Ontario dominate the national story though prices continue to climb briskly in most other markets—big and small—as well. Ontario’s cottage country is seeing tremendous competition among buyers with property values in Southern Georgian Bay (up $36,400 m/m), Kawartha Lakes (up $27,700) and Lakelands (up $26,600) recording some of the larger gains nationwide in April. Small southern Ontario markets (e.g. Woodstock-Ingersoll, up $23,400, and Brantford, up $21,300) and Ottawa (up $23,000) weren’t far behind. Buyers also had to pay materially more in British Columbia, including in the Fraser Valley (up $32,200 m/m) and Victoria (up $22,200). The dollar figures were less dramatic in other markets across Canada though they point to further widespread acceleration. This even includes the Prairies where prices in Calgary, Edmonton, Saskatoon and Winnipeg have really taken flight since the start of this year.

Activity pulling back from unsustainably high levels
It wasn’t a surprise to see Canadian home resales decline 12.5% in April. After successively setting new record highs through the fall and initial months of 2021, they had little upside left. And unusually strong winter activity likely altered the traditional seasonal pattern, bringing forward activity that would have taken place in the spring. Still, the picture was far from even last month. Home resales in the more affordable and less over-heated markets barely pulled back or even increased. This was the case in parts of Atlantic Canada, the Prairies and Quebec. Resales in Alberta
and New Brunswick, for instance, rose 3.9% m/m and 2.6%, respectively, while they fell just 2.4% in Quebec. Most of the drop took place in southern Ontario and British Columbia where earlier advances had been especially strong.

**Market imbalance to ease?**

There is plenty of room for activity to ease further in the months ahead—and yet remain historically vibrant. We expect a gradual rise in longer-term interest rates, deteriorating affordability, mortgage stress test tightening and the resumption of office work to cool demand down a few degrees. Soaring prices could also attract more sellers. This combination would ease the extreme imbalance that has characterized the market since last summer and set the stage for a moderation in the rate of price increases later this year. In the meantime, though, prices are likely to keep rising rapidly.

**April market highlights**

- **Home resales drop for the first time in five months:** They fell 12.5% to 731,600 units (seasonally adjusted and annualized) in Canada in April. The pullback was widespread, led by Kitchener-Waterloo (down 24.5% m/m), Hamilton-Burlington (down 23.5%) and Ottawa (down 22.4%). Still activity remained historically solid. Saint John (up 15.4% m/m) and Montreal (up 2.2%) were among the few markets that recorded an increase.

- **Fewer sellers came to market:** New listings slipped 5.4% nationwide to a still-strong 976,500 units (seasonally adjusted and annualized). Most local markets recorded declines though a few saw a rise, including Victoria (up 6.7% m/m), Ottawa (up 3.9%) and Montreal (up 1.9%).

- **While still tight, demand-supply conditions eased for a third straight month:** The sales-to-new listings ratio in Canada edged lower from 0.81 in March to 0.75 in April—still indicating a strong seller’s market both nationally and virtually in all local markets.

- **Home prices stayed on steep upward trajectory:** Canada’s composite MLS Home Price Index climbed a further 2.4% ($17,000 in April) to $731,600 nationally. The index was up 23.1% from a year ago, the strongest rate of increase ever for the index, and a further acceleration from 20.1% in March. The single-family home index soared 28.4% y/y and the condo index accelerated for the third-consecutive month to 8.5%.