



MONTHLY HOUSING MARKET UPDATE

February 15, 2018

Payback time! Canada's housing market quiets down post B-20 changes in January after busy end to 2017

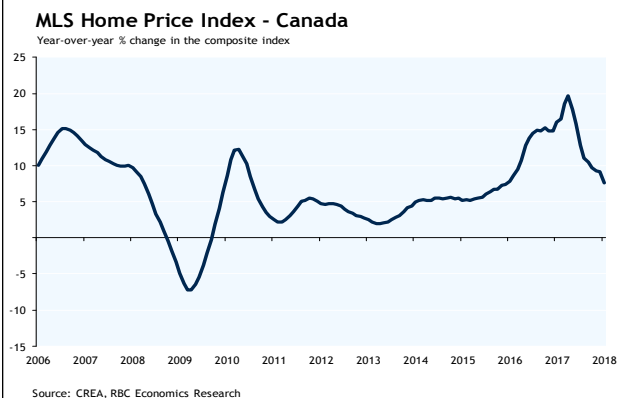
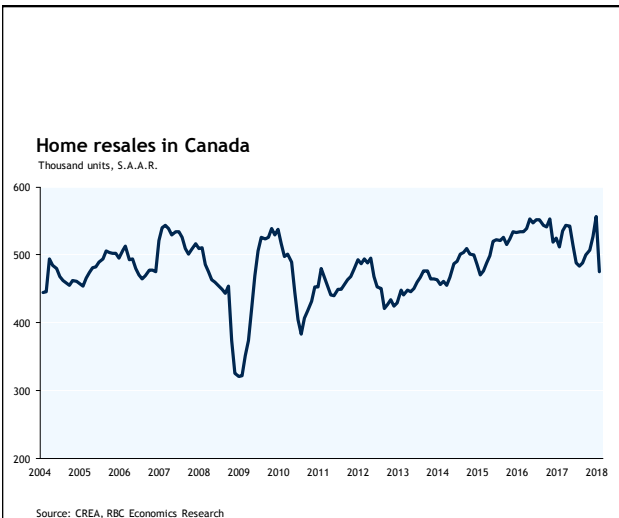
- Both buyers and sellers reacted strongly in January to the B-20 guideline changes. Home resales in Canada fell sharply by 14.5% from December and new listings plummeted by 21.6% on a seasonally-adjusted basis.
- Declines were generalized across the country—providing compelling evidence that tighter qualifying rules for uninsured mortgages had a widespread impact.
- It's too early to tell whether the new rules dampened homebuyer demand permanently or just displaced activity temporarily. We think it's both.
- Benchmark prices continued to slow their pace of increase, easing from 9.2% in December to 7.7% in January. The Toronto area accounted for most of this deceleration. Prices accelerated in Vancouver.
- Interestingly, demand-supply conditions *tightened* overall in Canada in January because new listings fell more than sales. This was the case in the Toronto, Vancouver and Montreal areas.
- Developments in January are consistent with our view that we've entered a period of payback for transactions brought forward late last year ahead of the new mortgage rule. Our outlook for 2018 calls for a second-consecutive modest annual decline in resales and sharp moderation in price appreciation.

Plunge in new listings perhaps is the bigger news...

It would be natural to focus on the sharp 14.5% monthly drop in home resales in January that the Canadian Real Estate Association reported today. It certainly adds weight to rampant speculations that the tighter qualifying rules for uninsured mortgages that came into effect on January 1 would temper homebuyer demand in Canada. But perhaps even more noteworthy was the fact that new listings plummeted by 21.6% in January to an eight-year low. It suggests that supply restraint might have played a big part of the slowdown in activity in January. Fewer homes being put out for sale limit the kind of activity that can take place.

...hinting at a psychological effect at play

We see two main reasons for sellers moving to the sidelines. 1) Many of them rushed to list their properties in November and December ahead of the new B-20 changes. New listings reached a seven-year high in December on a seasonally-adjusted basis. This likely brought forward properties that would have been offered for sale in the early part of 2018. 2) Other sellers might have feared a significant buyer pullback post-B-20 changes and opted to wait and see the market's reaction to the new rules. Given that the decline in new listings in January was much larger than the cumulative increases of almost 6% in November-December, we believe that many would-be sellers were in full-blown wait-and-see mode in January. This tells us that there are significant psychological and strategy components at play at this stage. We would expect to see more listings coming to market once sellers' fears subside. This would ease supply-side restraints that likely weighed on activity in January.



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January snapshot				
Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-2.4	-1.6	7.7	0.64
Toronto	-22.5	17.0	5.2	0.55
Montreal	15.8	-9.3	5.2	0.72
Vancouver	18.9	-8.0	16.6	0.76
Calgary	-0.6	-0.1	-0.5	0.59

Market likely over-reacted

The point about shifting psychology is that the market reaction to date—both the stampede to get deals done before January 1 and the collective move to the sidelines since then—probably overstated the true, lasting effect of the B-20 changes. We believe that the stricter mortgage lending rules will dampen homebuyer demand on a permanent basis but not to the extent implied by the sharp drop in home resales in January. In other words, we expect the market to reverse part of the January decline, though it’s unclear how quickly.

Prices still decelerating overall

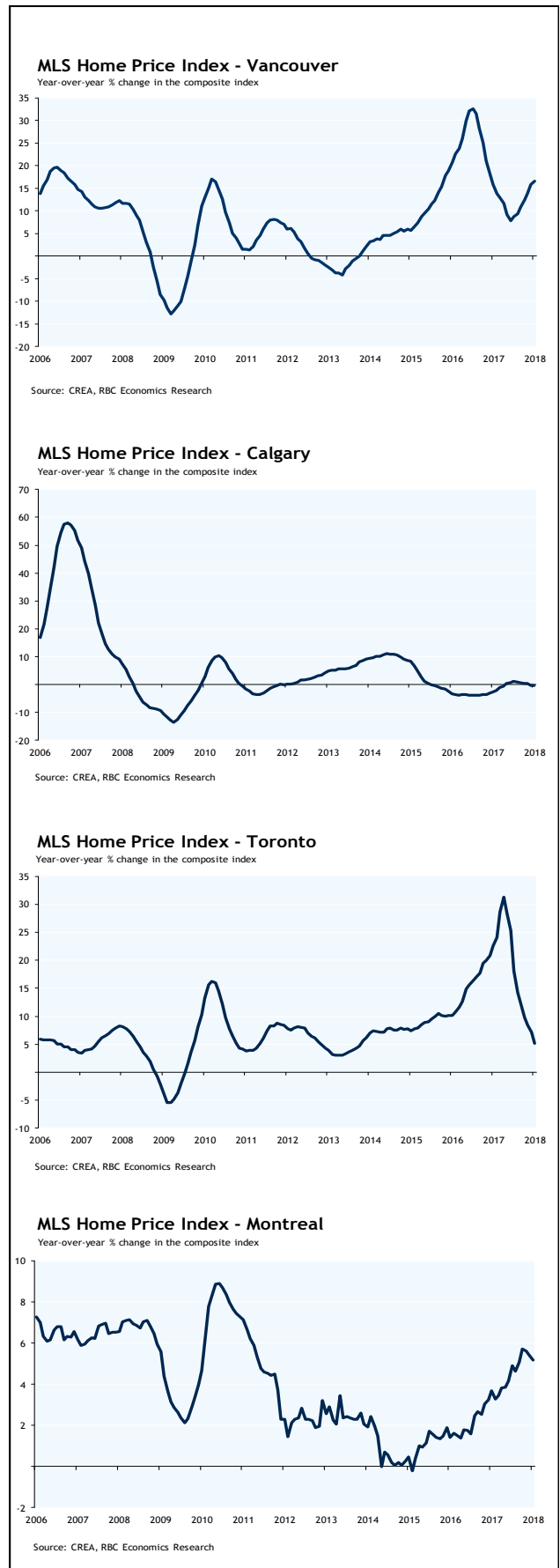
Meanwhile, benchmark prices continue to rise at a moderating pace overall in Canada. The national MLS HPI slowed from 9.2% y/y in December to 7.7% y/y in January. This slowing mainly reflects trends in the Toronto area where the composite price fell month-over-over for the eighth straight time in January. The contrast between higher-priced single-detached homes and lower-priced condos remains in evidence. Single-detached prices were up by just 0.6% y/y in January, whereas condo prices were up by a still-solid 19.9% y/y. Vancouver prices continue to buck the national trend. The composite MLS HPI accelerated from annual rate of 15.9% in December to 16.6% in January.

January resale activity fell in all but a handful of local markets

The weakness in resales and new listings in January was widespread across Canada. This isn’t surprising given that the B-20 changes affect all markets. A majority of markets, in fact, recorded double-digit monthly declines. This was the case in Toronto where resales plunged by 26.6% and new listings by 39.3%, and Vancouver with declines of 10.5% and 33.0%, respectively. Weakness was less pronounced in Montreal where resales dropped by 4.0% and new listings by 6.4%.

Further softening likely in the cards

Our view is that the late-2017 burst of activity will unwind further in the near term as the pool of buyers with mortgages pre-approved under the old rules runs out. That said, we’re in a traditionally slow period of the year and market gyrations tend to be amplified by seasonal factors. So be prepared for a bumpy ride in the coming months. For the year, we continue to believe that downward forces—including those caused by rising interest rates and stretched affordability—will dominate in the home resale market in Canada in 2018. These will keep activity on a soft landing course and restrain price increases substantially. Our outlook calls for home resales to ease from 514,400 units in 2017 to 500,300 units in 2018 in Canada. We expect a sharp price deceleration from 11.1% in 2017 to just 2.3% in 2018 nationwide.



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