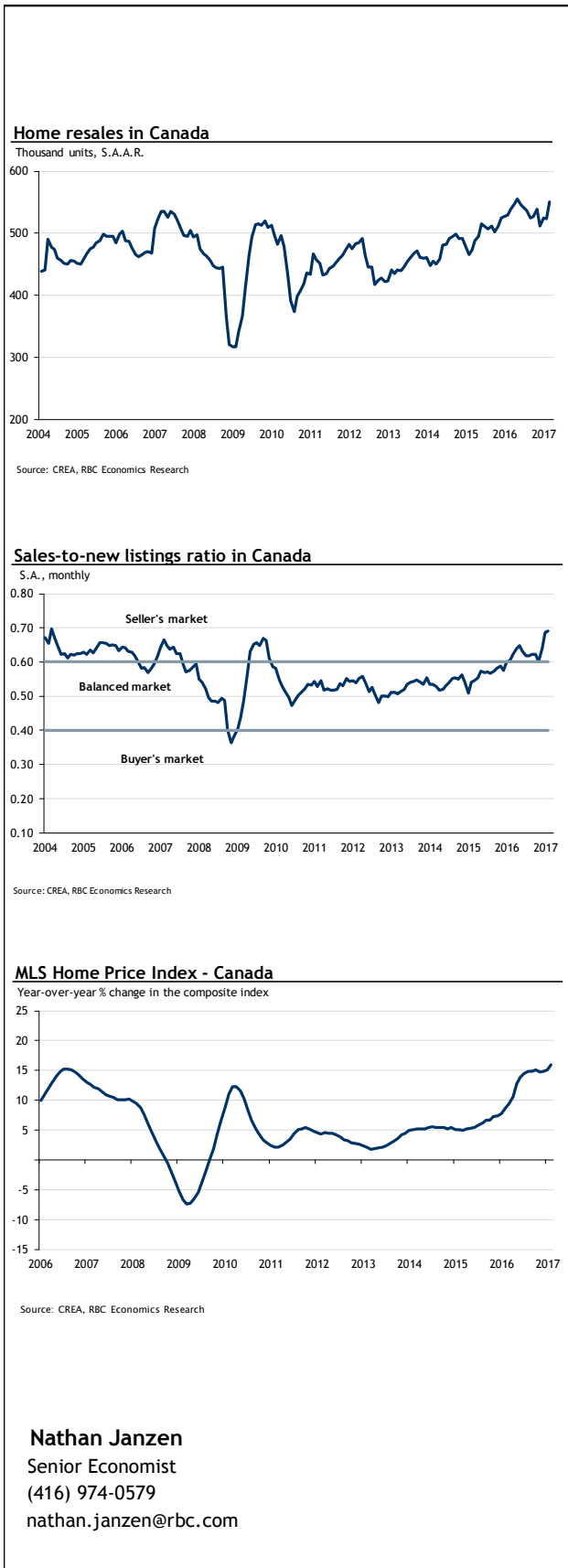


MONTHLY HOUSING MARKET UPDATE

March 15, 2017

Home resales jumped higher in February

- Statistics released today by the Canadian Real Estate Association (CREA) showed that February home resales jumped 5.2% on a seasonally-adjusted basis month-over-month to a level that is just 0.8% below the all-time high peak in April 2016. Unadjusted sales were down 2.6% from a year ago; however, that year-over-year decline could be entirely explained by the fact that sales in the month last year (a leap year) benefitted from an additional selling day.
- Two-thirds of the month-over-month national sales increase was accounted for by a 7.4% jump in Ontario, led by a 6.4% increase in Toronto, although CREA noted that increases were posted in about 70% of all local markets.
- Resales rose solidly in Alberta (+7.0%) to bring cumulative gains over the last three months to almost 30%. The level of sales nonetheless is still down almost 15% in the province relative to the pace before oil prices started to decline. Sales in Vancouver rose 1.5% on a month-over-month basis in February but were still down 42.1% from a year ago.
- New listings also rose in February but the 4.8% increase nationally was not enough to prevent a modest tick higher in the sales-to-listings ratio — a commonly used measure of housing market ‘tightness’ — to 69.0 from 68.7 in January.
- In a sign that heat in housing markets may be evolving into more than just a Vancouver and Toronto story, CREA noted that almost 60% of housing markets had a sales-to-listings ratio of 60 or more in February (a ratio above 60 is typically associated with a ‘seller’s market’). By our count, ~80% of local markets were in ‘seller’s-market’ territory in both BC (including Vancouver) and Ontario compared to ~70% in both a year ago and less than 50% the year before that. It remains the case that most markets outside of B.C. and Ontario are much more ‘balanced.’
- Nationwide, home price growth accelerated to 16.0% (from a year ago) in February from 15.0% in January, breaking out of a range of 14.5% to 15.1% that had held since July of 2016. It continues to be the case that upward price pressures are highly concentrated in pockets of Southern Ontario (Toronto prices up 23.8% year-over-year). Prices were up 14% from a year-ago in Vancouver but were still marginally (~1%) below the peak in the summer of 2016.
- Warmer-than-usual winter temperatures (particularly in Ontario) may have prompted more buyers than normal to hit the market in a typically slow month; however, the February sales result, and signs that housing market ‘tightness’ is spreading, albeit still largely within B.C. and Ontario, increases concern that new federal macro-prudential measures introduced in the fall of 2016 have not been enough to sufficiently dampen activity.
- The rapid rise in home prices in Southern Ontario—and the risks it poses for market stability—may prompt policymakers to intervene and engineer a cooldown.



February Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-2.6	-14.2	16.0	0.69
Toronto	5.2	-12.8	23.8	0.86
Montreal	1.2	-6.7	3.3	0.59
Vancouver	-42.1	-36.9	14.0	0.73
Calgary	17.5	-13.9	-1.9	0.69

More regulatory restraint needed?

Much of the attention in recent months has been focused on the extent to which the latest round of regulatory tightening has been effective at cooling Canada’s housing market. Earlier provincial measures clearly had an impact on activity in Vancouver (although markets now appear to have stabilized somewhat); however, recent strength in Ontario in particular raises questions about whether new federal regulatory measures in the fall were enough to cool other overheating markets.

Unusually warm temperatures may have boosted February sales in Ontario at the expense of sales in the spring, and it is also possible that the lagged impact of new federal regulations will have more of a significant impact on demand in coming months. Nonetheless, data for February — prices up a whopping 23.8% on a year-over-year basis in Toronto and 80% of local Ontario markets in ‘seller’s market’ territory according to the sales-to-listings ratio — will do little to assure the provincial government which, according to Finance Minister Sousa, has already been weighing options to cool markets, including a foreign buyer tax.

Supply constraints to persist?

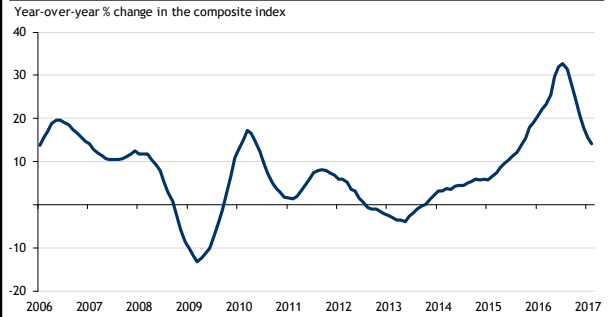
While strong demand has been a major factor, housing market tightness has also been a result of supply trends as home listings have persistently underperformed sales. Although the reasons for listing underperformance is not well understood, part of the issue is likely related to tight housing markets themselves that make it very easy to sell in some of the tighter markets but much more difficult to buy, with many homes being sold in multiple-bidder situations. CREA noted that this dynamic (where so-called ‘move-up’ buyers either decide not to move or decide try to buy before selling) could be increasing the number of buyers relative to sellers. That further contributes to tighter demand-supply conditions in these markets, which in turn propels prices higher at accelerating rates.

Risks for 2017 edging higher

Activity in coming months will provide a firmer indication of whether recent readings are a blip (potentially weather-related) versus an indication of underlying trends. Nonetheless, data over the winter — particularly outperformance of Ontario relative to our prior expectations — does leave the risks tilted to the upside relative to our forecast both for a 10.9% drop in home resales this year and a modest 2.1% increase in prices.

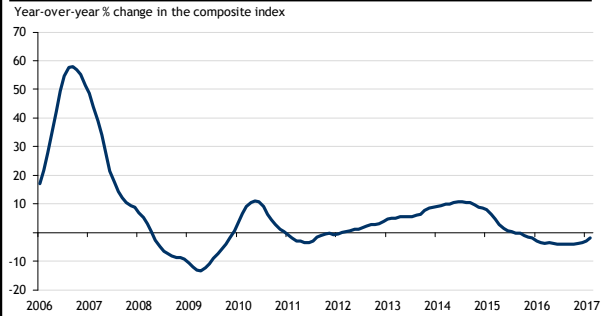
Although affordability conditions are clearly stretched in some regions, our economic outlook does not assume a significant shock to the economy as a whole that would either negatively impact labour markets or sharply boost interest rates to slow housing markets (although potential trade disruptions emanating from the U.S. remain a key risk). We are nonetheless becoming increasingly concerned about the dynamics in the Toronto (and surrounding areas) housing market that, in our view, argues that some kind of local policy intervention is necessary (and probably urgently). Whether a ‘foreign-buyer’ tax, as implemented in Vancouver, is the right choice for Toronto or not is debatable; however, the Vancouver experience last year at the least showed that some form of local policy restriction could have significant (likely beneficial in the long-run) cooling effects on local housing markets.

MLS Home Price Index - Vancouver



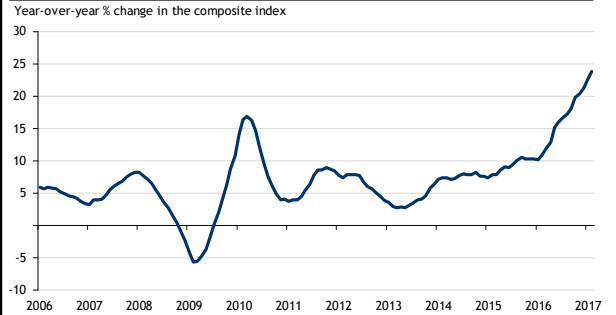
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



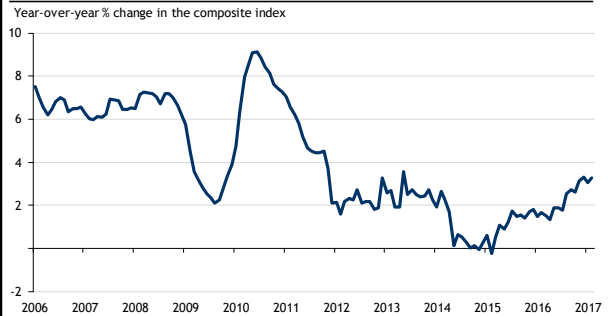
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

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