MONTHLY HOUSING MARKET UPDATE

April 19, 2022

Low supply still front and centre at start of spring season

This year’s spring market kicked off on a slightly weaker note across Canada though (so far) this may have more to do with supply constraints than softer demand. Home resales and new listings both fell by similar extents in March—down 5.4% m/m and 5.5%, respectively, nationwide—keeping inventories scarce. Still, the decline in activity was just a minor blip. Resales remained brisk (at 659,000 units, seasonally-adjusted and annualized) and far above pre-pandemic levels. Any cooling effect from the Bank of Canada’s early-March interest rate hike—the first since 2018—likely was minimal.

Still tight, tight, tight for the most part

With few units to fight over, fierce competition between buyers barely let up. Demand-supply conditions in all but one market (Toronto) still strongly favour sellers, fueling further widespread price appreciation. The only hint of a market shift is a moderation in the rate of price increase. Canada’s composite MLS Home Price Index rose ‘just’ 1.0% m/m in March, or close to a third of the average monthly increase in the previous five months (2.9%). Relative to a year ago, the rate of appreciation eased from 29.2% in February to 27.1% in March.

Prices decelerate in Ontario and British Columbia

Markets in Ontario (including Toronto) and parts of British Columbia (including Vancouver) accounted for most of the price deceleration last month. Some markets (for example, Cambridge, Brantford, Hamilton and Kitchener-Waterloo) even saw outright month-to-month declines—all following historic run-ups in the prior six to 12 months. We think these could mark turning points. We expect high-flying property values to face increasing downward pressure in the period ahead as interest rates rise.

Higher interest rates and affordability issues to pose challenges

With its 50-basis point hike to 1.0% on April 13, the Bank of Canada set an aggressive course to return its policy rate to a neutral level by year-end. We believe the Bank will add a further 100 basis points over the next six months to 2.0%, or slightly above pre-pandemic levels (1.75%). Higher borrowing costs will worsen already stretched affordability conditions in many parts of the country, which we see cooling homebuyer demand in...
the period ahead.

**From supply restraint to softening demand**

We expect further moderation in activity over the remainder of this year though it will increasingly reflect softening demand rather than supply scarcity. Peak prices may be coming soon in some markets as demand-supply conditions become more balanced and extremely bullish sentiment fades.

**Local trends diverging**

More intense downward pressure may build in Canada’s pricier markets. That’s because they are most sensitive to higher interest rates. We expect activity and prices to be more resilient in Alberta where local markets have more catching up to do following a prolonged slump before the pandemic.