September 6, 2024

Rate cuts have yet to pull Canada's housing markets out of their slump

The Bank of Canada's rate cuts have yet to pull housing markets out of their slump. Markets' reaction so far has been largely muted. Early reports on August home sales showed only small increases from July in most markets, including Vancouver, Calgary, Edmonton, Toronto and Montreal. These came on the heels of mixed results in June and July. It will clearly take deeper rate cuts to stimulate demand in a material way, as buyers continue to contend with high ownership costs and poor affordability.

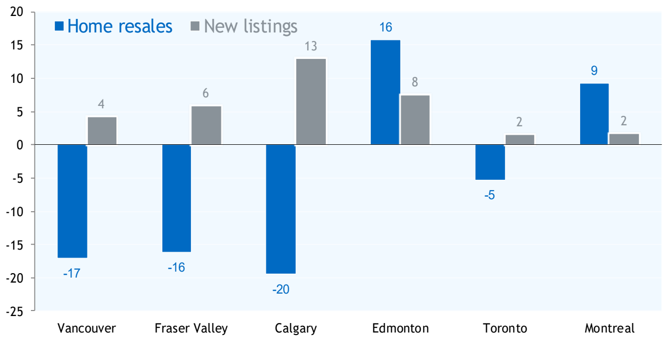
The biggest trend this year has been a rise in homes listed for sale. In some cases, such as in Toronto, it reflects the completion of many newly built units (mainly condos) that owners (mainly investors) are looking to offload. In other cases, it could be sellers betting lower rates will spur buyer interest and improve sale outcomes. In some, it may be a sign of homeowner distress arising from high rates.

The balance between supply and demand is generally easing, now reaching a point that favours buyers in Toronto (especially in the condo segment). Most other market are still in balanced or slightly tight territory—offering broad support for prices.

But such support is maintaining property values steady at this juncture. The MLS Home Price Index in most markets has stayed essentially flat since spring, with very little movement occurring in August. We see this trend persisting until larger rate cuts heat up demand more significantly.

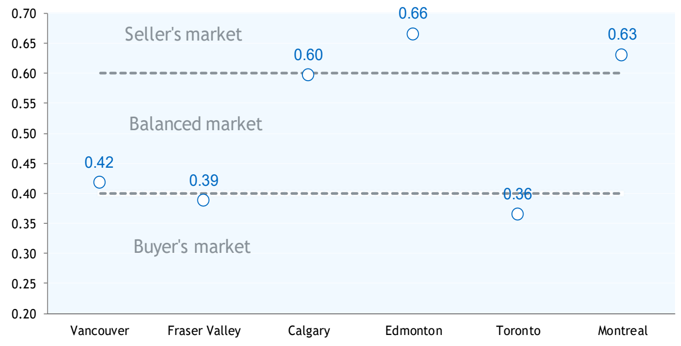
Major market highlights: August 2024

Market activity
Annual % change, August 2024



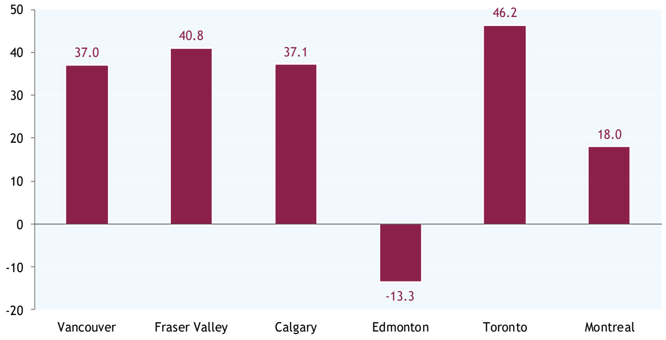
Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Demand-supply conditions
Estimated sales-to-new listings ratio, seasonally-adjusted, August 2024



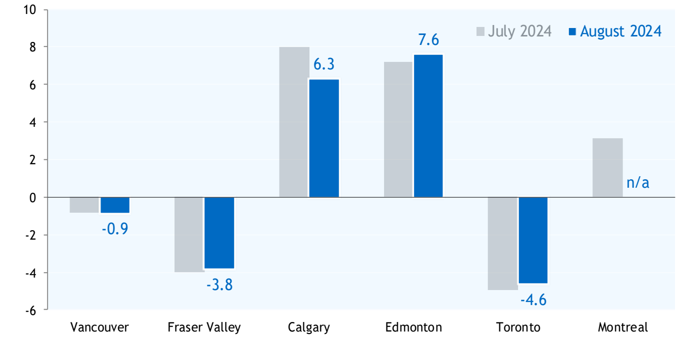
Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Inventories
Active listings, annual % change, August 2024



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Home prices
MLS Home Price Index, annual % change



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

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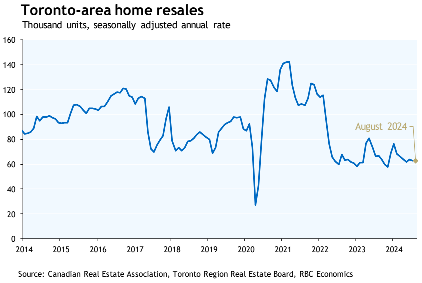
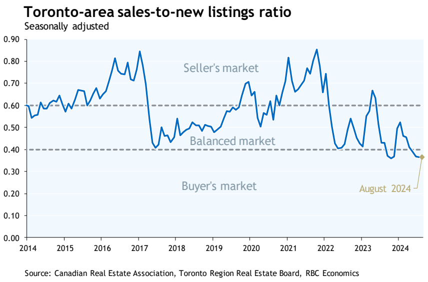
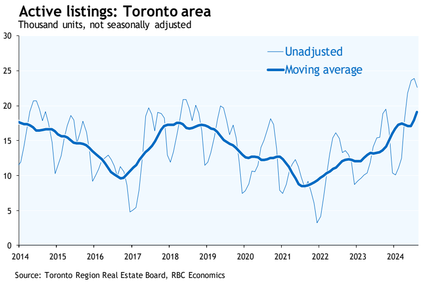
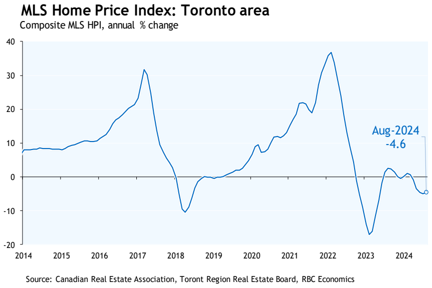
Toronto area: Standing still



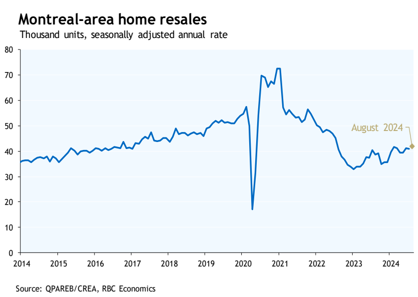


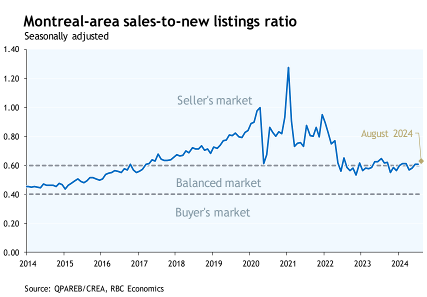


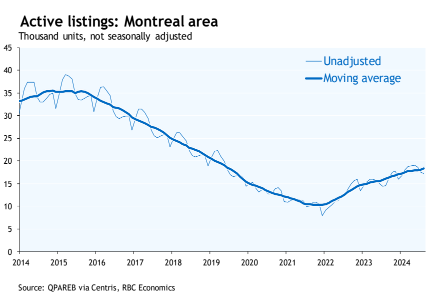


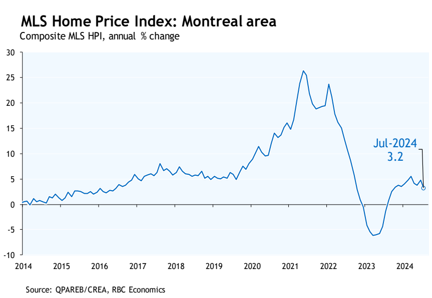
Potential buyers are still hunkered down, waiting for better deals on either price or interest rates (or both). A sharp rise in listings this year may have resolved severe inventory shortages that prevailed earlier but so far failed to unlock the market. Home resales barely budged between July and August, edging up just 0.6% on a seasonally adjusted basis—and still an astounding 32% below pre-pandemic levels. And home prices were unchanged between the two months at a hefty $1.09 million for the MLS HPI benchmark. Affording what remain very high price points is the main challenge for buyers. Even the relatively cheaper categories like condo apartments (the average price of which is running closer to $668,000 in the region) are out of reach for many. This leaves the market in a standstill. Sellers are holding firm on their asking price and buyers feel no urgency (or are unable) to bid. But sellers may become more amenable to make concessions as the balance between supply and demand now heavily favour buyers, especially in the condo segment. A wave of new condo completions this year may and concomitant surge in condo inventories may pull prices down somewhat in the near term. We expect sales momentum to build gradually in the period ahead as interest rates continue to fall.

Montreal area: Long road ahead but recovery progressing





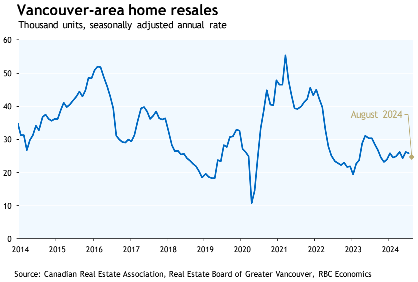


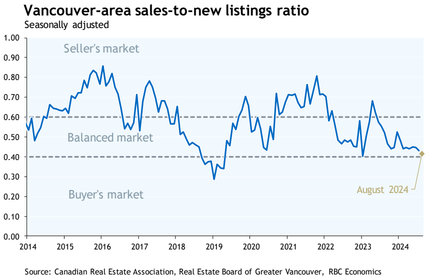


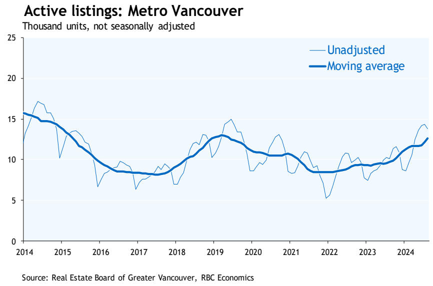
The market continued to slowly recover in August. We estimate home resales advanced more than 2% from July, and property values remain on an appreciating path. Median prices were up 5.2% from a year ago for single-family homes and 3.6% for condo apartments last month—both representing slight moderations from July. There's a long road ahead in this recovery process, though. The number transactions in August was still 15% short of the volume recorded just before the pandemic. We expect the recent rising trends to persist in the near term as the Bank of Canada cuts rates further and supply-demand conditions stay in balance (if marginally tight). Inventories have been gradually rebuilding across the entire region, yet remain historically low—pointing to further (modest) price appreciation in the coming months.

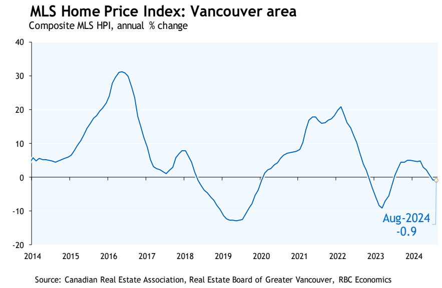
Vancouver area: Stuck in a low gear

Action has yet to pick up in a material way from the cyclical trough. We estimate home resales dipped 4% between July and August (seasonally adjusted)—extending this year's succession of monthly up and down movements that have dragged down the pace of recovery. Inventories, however, are now more plentiful with sellers coming to market in greater numbers. This affords time to buyers to make purchasing decisions and tilt pricing power in their favour. The result so far has been a leveling off of prices. The area's composite MLS HPI benchmark ($1.20 million in August) has remained little changed over the first eight months of this year. It's now down a slight 0.9% from a year ago. If anything, we see some downward pressure potentially building in the period ahead. Affordability is still among the worst in anywhere anytime in Canada, and no doubt buyers will want to take advantage of their stronger bargaining position. A material drop in rates will eventually alleviate tensions all round, but that is likely months away.









Calgary: More sellers help rebalance a very tight market

The main story in August was a big jump in new listings (up 13% from a year ago). The development is line with trends in other markets this year as sellers have come out of the woodwork—many of them had previously stepped to the sidelines while the Bank of Canada aggressively hiked interest rates. If sustained, the larger flow of new listings will help rebalance what has been a super-tight market for some time. This would ease the intense upward pressure that's driven up prices considerably in the past four years (with just a short reprieve in the second half of 2022). Indeed, some deceleration is already perceptible. The annual rate of increase in the composite MLS HPI has moderated since March, reaching 6.3% in August. We think there's some room for further moderation as the market rebalances but low inventories are likely to keep the pace robust. Resale activity has remained relatively steady since spring. We estimate it inched 1.5% higher in August from July (seasonally adjusted). Calgary is among the few markets in Canada where the volume of resales is far above pre-pandemic levels. We expect historically strong activity to persist in the face of booming housing demand driven by explosive population growth.