August 8, 2024

Canada's housing markets look for deeper rate cuts to ramp up activity

The Bank of Canada's interest rate cuts in June and July likely marked a turning point for struggling housing markets across the country, but so far the impact has been mixed. After a small uptick between May and June, home resales fell again in some markets including Vancouver, Calgary and Toronto in July, according to early reports from local real estate boards. However, activity picked up slightly in Edmonton and Montreal. It will take deeper rate cuts to meaningfully reduce ownership costs and stimulate homebuyer demand more broadly.

Supply, on the other hand, continues to grow. 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.

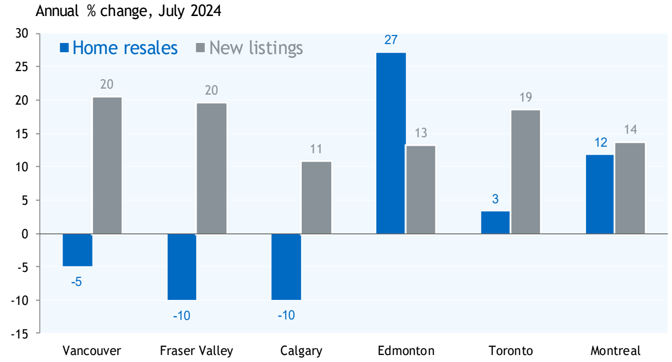
The balance between supply and demand varies considerably from market to market. Conditions in Calgary, Edmonton and to a lesser extent Montreal favour sellers. It's the opposite in the Toronto area where buyers have the upper hand—albeit just barely. A tenuous equilibrium holds in Vancouver.

Still, home prices have generally levelled off since spring. Calgary—Canada's housing hotspot—remains an exception, though gains have moderated recently. We see flat price trends persisting until larger rate cuts heat up demand more materially.

Major market highlights: July 2024

Market activity

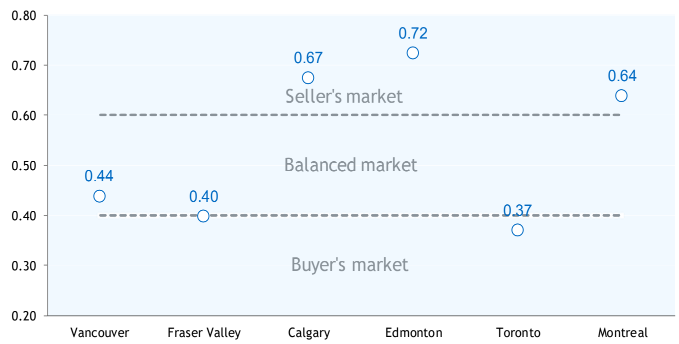
Annual % change, July 2024



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

Demand-supply conditions

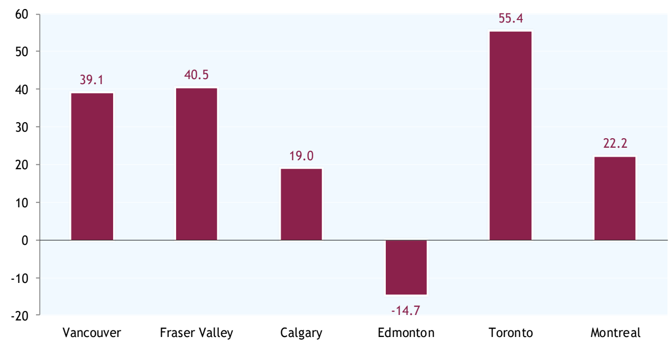
Estimated sales-to-new listings ratio, seasonally-adjusted, July 2024



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

Inventories

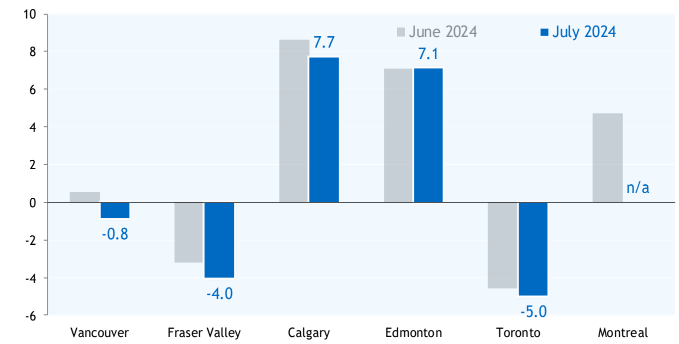
Active listings, annual % change, July 2024



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

Robert Hogue
Assistant Chief Economist | 416-974-6192 | robert.hogue@rbc.com

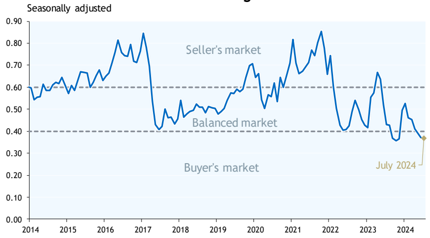
Toronto area: Slump ongoing while inventories mount

The market can best be described as lethargic this summer. A modest resales advance in June was mostly reversed by a 0.7% dip in July, leaving activity little changed from where it was in the spring (on a seasonally adjusted basis). Buyers are clearly looking for larger rate cuts amid strained affordability. The situation is livelier on the supply side, though. Inventories are accumulating rapidly as soft demand comes well short of absorbing the surge in properties up for sale. This is especially true of condo apartments where a wave of new unit completions this year boosted active listings by 64% from a year ago. Detached home listings are up less, although by a still considerable 48%. Home prices have stayed largely flat overall in the past four months. The aggregate MLS Home Price Index benchmark was $1.09 million in July, virtually unchanged from April. But it's down 5% from a year ago, reflecting last fall's mild correction. Condo prices accounted for most of the annual decline (-5.1%) with detached home prices (-4.3%) not far behind. We expect mounting condo inventories will put downward pressure on prices in the near term. Recovering demand later this year and into 2025 should contain that soft patch.

Toronto-area home resales
Thousand units, seasonally adjusted annual rate

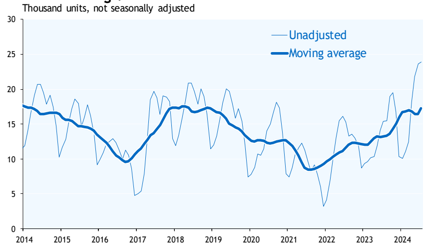
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Toronto-area sales-to-new listings ratio
Seasonally adjusted



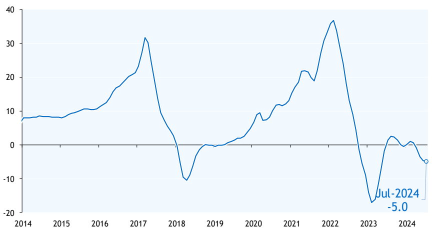
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Active listings: Toronto area
Thousand units, not seasonally adjusted



Source: Toronto Region Real Estate Board, RBC Economics

MLS Home Price Index: Toronto area
Composite MLS HPI, annual % change



Source: Canadian Real Estate Association, Toront Region Real Estate Board, RBC Economics

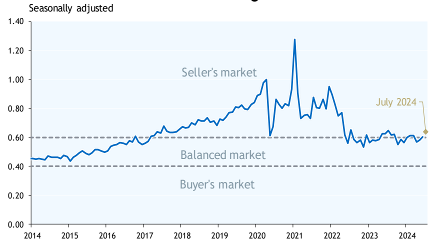
Montreal area: Slow recovery on track

The pace may be slow but recovery is on track in the market. Home resales rose for a second straight month in July, up an estimated 0.4% from June and 12% from a year ago. Demand supply conditions are on still the tighter end of the scale, which supports mild gains in property values. Median prices climbed last month for both single-family homes (up 6% from a year ago) and condo apartments (4%). Inventories are gradually rebuilding across the entire region, yet remain historically low. This points to continued price appreciation in the coming months. If anything, lower interest rates would reinforce that trend.

Montreal-area home resales
Thousand units, seasonally adjusted annual rate

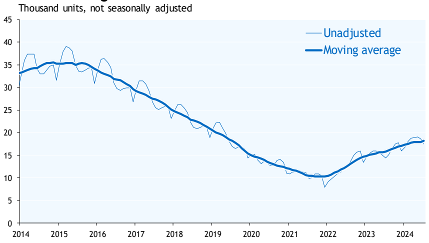
Source: QPAREB/CREA, RBC Economics

Montreal-area sales-to-new listings ratio
Seasonally adjusted



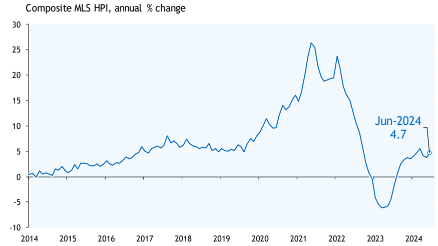
Source: QPAREB/CREA, RBC Economics

Active listings: Montreal area
Thousand units, not seasonally adjusted



Source: QPAREB via Centris, RBC Economics

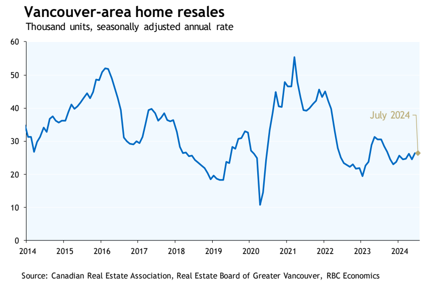
MLS Home Price Index: Montreal area
Composite MLS HPI, annual % change

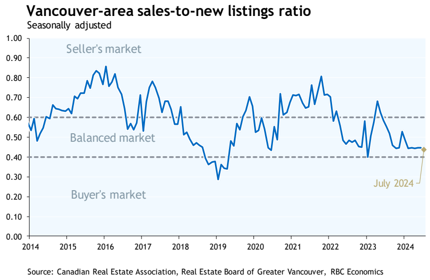


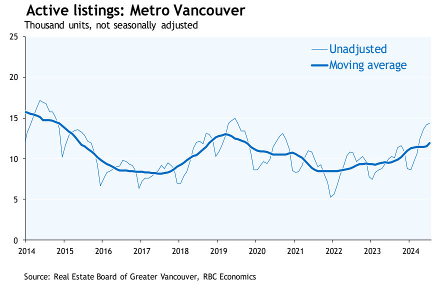
Source: QPAREB/CREA, RBC Economics

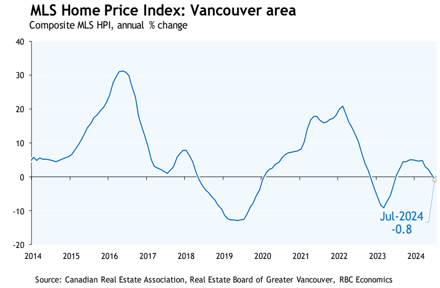
Vancouver area: Buyers stay on the defensive

The picture hasn't changed much over the last few months. Transaction activity is slow but trending slightly higher. Supply and demand are largely in balance with buyers holding more bargaining power than they did a year ago. The number of homes for sale is climbing—inching closer to levels that prevailed before the pandemic. And, prices have stayed essentially flat. In July, Vancouver's composite MLS HPI was down marginally 0.8% from a year ago with condo apartments accounting for the decline. We see the potential for a mild price correction ahead if supply outpaces demand. We estimate new listings grew faster than home resales between June and July (on a seasonally adjusted basis). This could continue in the near term. High interest rates exert tremendous stress on many existing homeowners (including investors), and a growing share may be forced to sell—fueling supply. On the other end, Vancouver-area buyers face the biggest affordability hurdles in the country, which is likely to constrain demand for some time. A material drop in rates will eventually alleviate tensions all round, but that is likely months away.









Calgary: Steam seeps out but still hot

Some of the exceptional firmness in supply-demand conditions eased last month as more sellers came to market while buyers took a breather. We estimate new listings rose 6% between June and July, but home resales dipped more than 9%. These have resulted in a rise in properties for sale—from extremely low levels—and a further slowing in the pace of price appreciation. At 7.7%, the annual increase in Calgary's composite MLS HPI is still very robust though it represents a notable deceleration from 10.8% just four months ago in March. We think there's only limited room for further moderation given persistent tightness in the market and low inventories. Demand for housing remains extraordinarily strong amid explosive population growth, making it highly unlikely that prices will stall or decline anytime soon.