

May 6, 2021

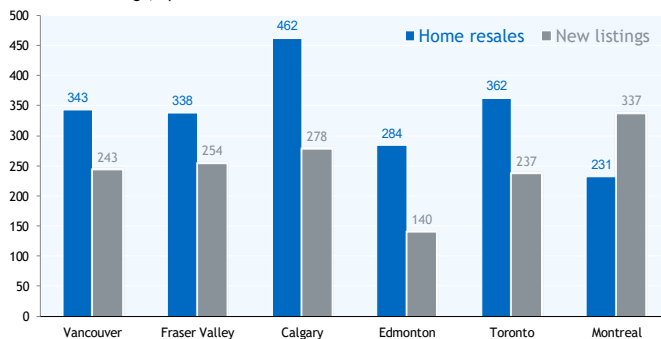
Canadian housing markets glided to a lower orbit in April

The massive retrenchment in activity a year ago heavily distorted the housing market picture in April. On the face of it, home resales and new listings skyrocketed 140% to 462% among Canada’s largest markets. But base effects vastly exaggerated these numbers. A focus on monthly (seasonally-adjusted) movements reveals signs of moderation across several housing markets in April. After soaring to outer space in prior months, home resales came down to a lower orbit—still generally strong but less excessively so—in Vancouver, Toronto and Ottawa. Montreal lost some altitude a couple of months earlier and has since remained largely in a holding pattern. Activity in Calgary and Edmonton, on the other hand, has yet to change trajectory. Both still trended higher last month despite the third wave of the pandemic reaching worrisome levels in Alberta. Whether or not moderating in April, all major markets continued to heavily favour sellers. Inventories generally remain low (despite rising somewhat), leaving few options for buyers to fight over and fueling widespread bidding wars. So it isn’t a surprise that home prices showed no signs of moderating. Quite the contrary, they escalated at a faster rate in April in all major markets, reaching new record highs in most markets (except in Alberta). Single-family homes are the undisputed hotter category everywhere but condo prices have gathered steam in recent months. We expect this trend to continue with a sharp deterioration in single-family home affordability (in both large and smaller markets) driving more buyers toward condos.

Major market highlights: April 2021

Market activity

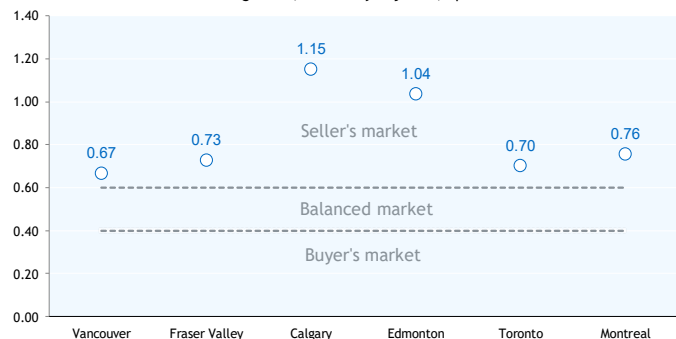
Annual % change, April 2021



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

Demand-supply conditions

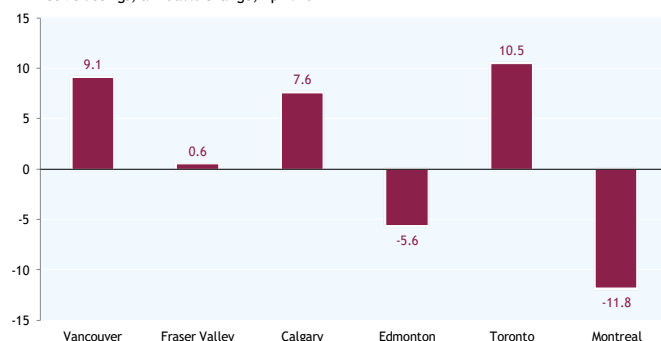
Estimated sales-to-new listings ratio, seasonally-adjusted, April 2021



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

Inventories

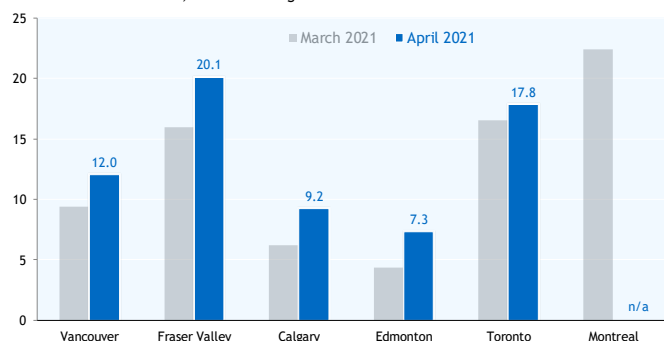
Active listings, annual % change, April 2021



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

Senior Economist | 416-974-6192 | robert.hogue@rbc.com



Toronto area—Some market fatigue sets in?

The Toronto Regional Real Estate board estimated home resales fell 20% between March and April on a seasonally-adjusted basis, providing the first sign that the furious pace of the last four months is finally slowing down. No doubt the spike in prices—the Toronto area's composite benchmark is up more than \$120,000, or nearly 14%, since November—has taken many potential buyers out of contention. Yet, higher prices haven't opened the floodgates for sellers. Despite rising for three straight months, for-sale inventories are still historically low. So tight demand-supply conditions continue to apply intense upward price pressure. The rate of increase in the area's MLS Home Price Index climbed to a four-year high of 17.8% y/y last month. Single-family homes (up 24.5%) accounted for most of the increase though we got further evidence the condo segment is on the mend with prices accelerating for the second-consecutive month (up 4.3%). Suburban neighbourhoods have been the hottest spots in the region through the current boom. This continued to be the case in April. The MLS HPI was up 33.5% y/y in Durham Region and 24.5% in Halton Region, far stronger than the 9.1% rise recorded in the City of Toronto (held back by the earlier softness in the downtown condo segment).

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



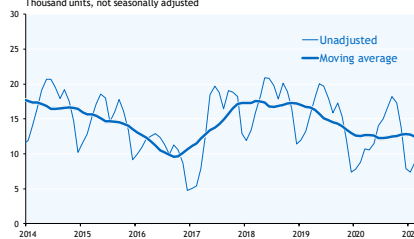
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

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



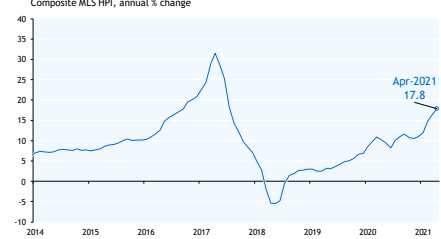
Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

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

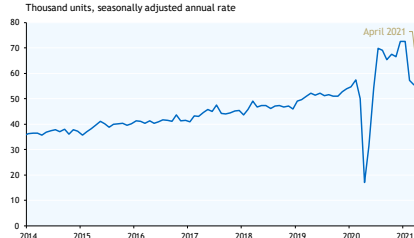


Source: Canadian Real Estate Association, Toronto Region Real Estate Board, RBC Economics

Montreal area—In a holding pattern

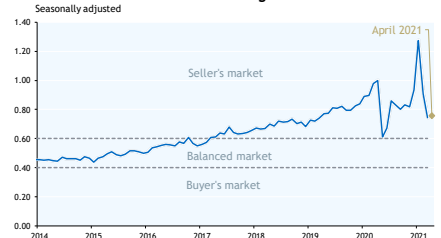
The market stayed in a holding pattern in April. We estimate home resales rose 2.1% m/m (seasonally adjusted)—following a modest 2.9% m/m decline in March. Demand-supply conditions and inventories were little changed. They still put sellers squarely in the driver's seat. Strong competition between buyers kept home prices spiraling further upwards. The area's median prices surged 39% y/y for single-family homes and 23% for condos—the fastest rates of increase on record. Single-family homes continued to draw the most bids from buyers, extending a trend throughout the pandemic. Yet it's condo apartments that registered the stronger resales growth over the past few months. This partly reflects better affordability relative to other housing categories and more plentiful inventories (especially on the Island of Montreal). That said, those inventories have shrunk materially, setting the stage for firmer condo price gains.

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



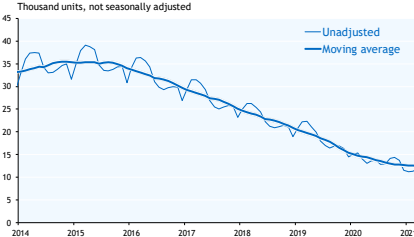
Source: QPAREB/CREA, RBC Economics

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



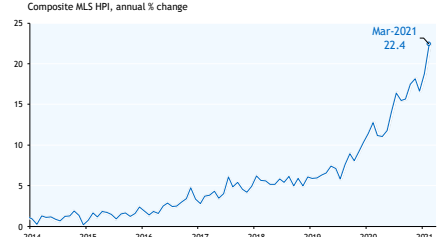
Source: QPAREB/CREA, RBC Economics

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

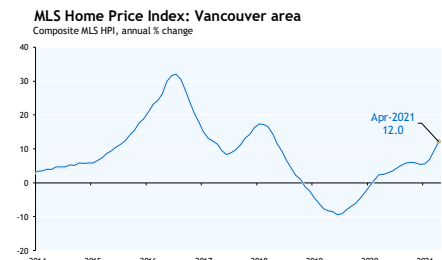
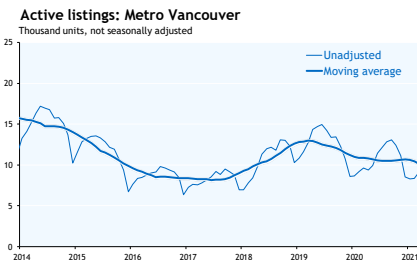
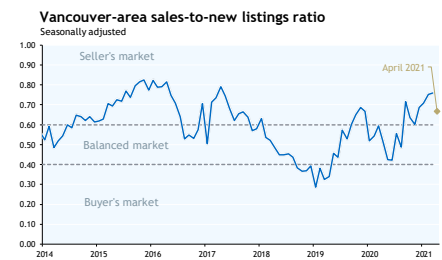
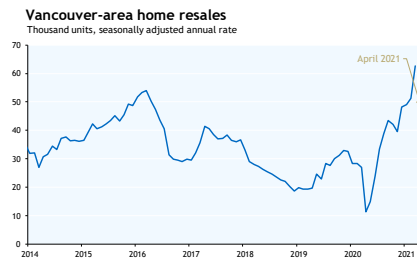


Source: QPAREB/CREA, RBC Economics



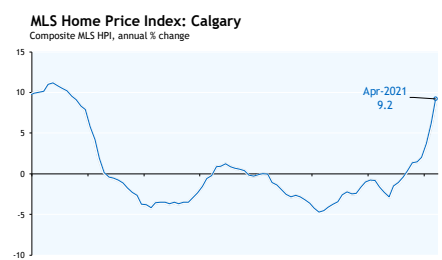
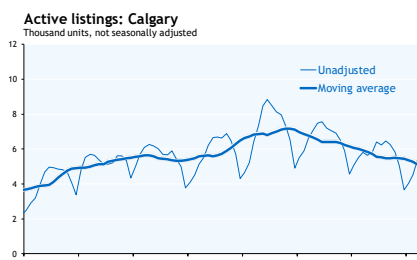
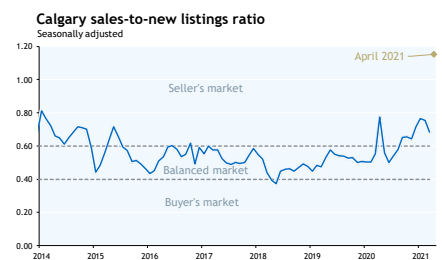
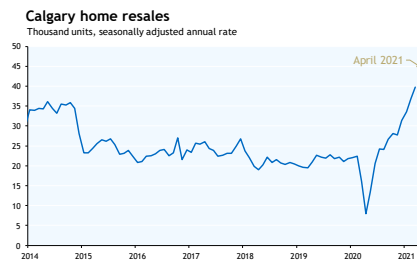
Vancouver area—Market still strong despite activity moderating

By our own estimation, home resales dropped more than 20% in April from an all-time high in March (seasonally adjusted). This still left activity 56% above the 10-year average for the month. In other words: the market continued to be exceptionally strong. For now, sellers remain in command, keeping prices on an accelerating path. Vancouver's composite MLS HPI increased 12.0% y/y in April, up from 9.4% in March. Gains are strongest for single-family homes (20.9% y/y) thanks to pandemic-induced demand for larger indoor space. Condo prices (up 5.9% y/y) are heating up, however, as this category's relative affordability advantage is now attracting more buyers. The moderation in overall resale activity last month alongside a welcome rise in for-sale inventories—largely seasonal in nature—helped reduce the imbalance between demand and supply. A further cooling of demand and even more listings will be necessary to move the market back to balance and temper price increases. It's unclear whether this will take place in the coming months.



Calgary—Full steam ahead

Calgary's market got hotter last month. We estimate home resales shot up more than 10% from March on a seasonally adjusted basis, setting a new all-time record. The firmer tone in the market over the past several months attracted more sellers, though not nearly enough to meet super-charged demand. This further intensified competition between buyers and raised price pressure. Calgary's composite MLS HPI rose 9.2% y/y, the fastest rate in seven years. Given the substantial degree of tightness in the market presently, double-digit price gains are likely just around the corner. In fact, single-family homes crossed that threshold last month (appreciated by 11.0% y/y). Condo prices are far behind but have been rising for two consecutive months.



Edmonton—Buyers took a breather in April. Resales slipped approximately 2% from March (seasonally adjusted) based on our own calculation. The pause in activity likely had more to do with a lack of supply—inventories remained historically low—than a waning of demand as activity stayed elevated. Property values appreciated at a faster rate. The composite MLS HPI was up 7.3% y/y, the strongest rate in more than a decade.

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.