

## MONTHLY HOUSING MARKET UPDATE

October 15, 2020

### Home resales in Canada

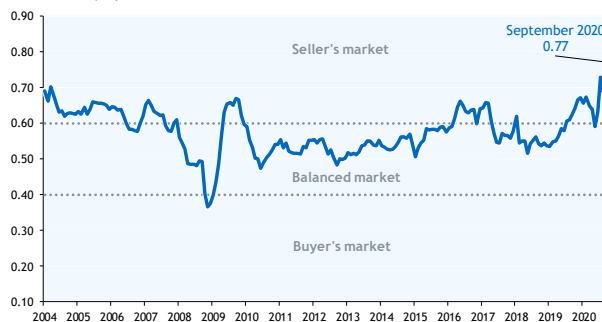
Thousand units, seasonally adjusted and annualized



Source: CREA, RBC Economics

### Sales-to-new listings ratio in Canada

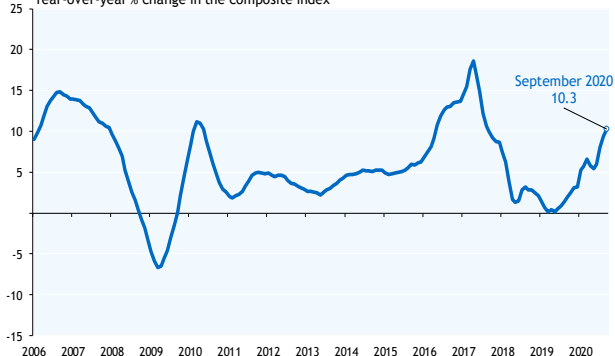
Seasonally adjusted



Source: CREA, RBC Economics

### MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics

## Canada's housing market got hotter in September

- Home resales were the strongest ever:** This summer's rally continued last month across Canada, rising a further 0.9% from August to 677,000 units (annualized) nationwide—an all-time high and 46% above the September 2019 level. Activity increased in the majority of markets, with Ottawa (up 19.9% m/m), Vancouver (up 10.5%) and Calgary (up 9.4%) leading the way. Winnipeg (down 4.5% m/m), Toronto (down 5.3%) and Montreal (down 6.5%) recorded declines though the level of activity remained exceptionally high.
- Fewer sellers came to market:** Nationally new listings fell for the first time in five months dropping 10.2% from August. Tighter availability of supply no doubt restrained the pace of resales in September. Homes newly listed for sale plummeted 24% m/m in Vancouver, 23% in Toronto and 16% in both Halifax and Hamilton. Calgary (down 1.6% m/m), Winnipeg (down 1.8%) and Montreal (down 2.5%) recorded more modest declines. In most cases, last month's drop followed outsized increases in the previous four months.
- Tightest demand-supply conditions in nearly two decades:** Sellers held the upper hand virtually everywhere in Canada except a few pockets in the Prairies, and Newfoundland and Labrador. Nationally, the sales-to-new listings ratio—a reliable gauge of price pressure—reached an 18-year high of 0.77. Supply was especially short of demand in Ontario, Quebec and parts of Atlantic Canada.
- Prices keep on rising but condo values are levelling off in a few places:** Canada's MLS Home Price Index (HPI) accelerated to a rate of 10.3% y/y—the first time it's been in double-digits in three years. Most markets east of Manitoba saw double-digit annual gains, led by Ottawa (up 22%), London (up 19%) and Montreal (up 15%). The strength was generally concentrated in single-detached homes, with this category's HPI rising 12% y/y nationwide. This was almost double the 6.2% rate for condo apartments. Condo prices have flattened in Vancouver, Toronto and Hamilton relative to pre-pandemic levels.
- The market has fully recovered—expect some cooling ahead.** We believe the spectacular rally over the past five months has exhausted pent-up demand created earlier this spring. This, and tight supply will restrain activity this fall.

### September could be a turning point for supply

While the full-scale return of buyers to the market gathered much of attention this summer, the surge in sellers has been as impressive. Rapid growth in supply (from depressed levels in March and April), in fact, was

### September market snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	45.6	16.6	10.3	0.77
Toronto	41.6	30.8	11.6	0.66
Montreal	40.7	33.3	15.5	0.77
Vancouver	58.3	31.1	5.8	0.72
Calgary	31.9	0.5	-0.3	0.67



crucial for ‘unlocking’ pent-up demand and driving home resales to record highs. But September could be a turning point with the first drop in new listings in five months signaling the wave of sellers is receding. If sustained, a lack of supply will increasingly restrain activity again. Remember all the talk about lack of supply pre-pandemic? Expect some of it to come back—even if pent-up demand is fading. This isn’t good news for buyers hoping for fewer bidding wars in most market segments.

### Strength concentrated in low-rise categories

Market trends diverged across the housing spectrum. Real estate board level data earlier this month showed that activity has been universally stronger for single-detached and other low-rise homes than for condos. And the number of condos put up for sale has risen much faster than the number of low-rise homes this summer. This means the tightness between demand and supply observed in the aggregate predominantly reflects the reality of low-rise categories. Market conditions for condos are relatively looser—especially in core urban areas. The penchant for low-rise properties with more living space (and a yard) has also fueled activity in suburbs, exurbs and cottage country markets. Some of the stronger resales increases in September in Ontario were recorded in smaller markets such as Niagara Falls-Fort Erie, Muskoka-Haliburton and Orillia.

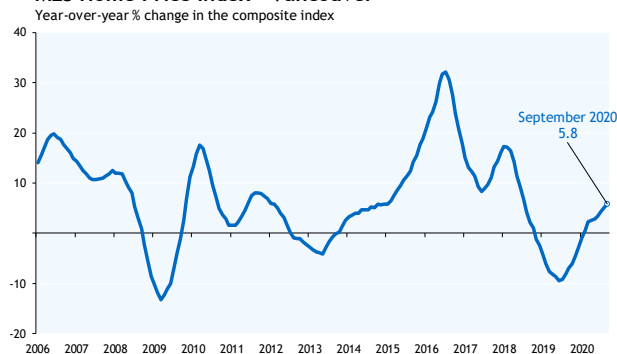
### Home prices expected to rise further but condo values face some headwinds

Current demand-supply conditions support further overall price increases in the near term. But we expect trends to differ between low-rise and condo categories. We see single-detached property values far outpacing downtown condo apartment values. Condo prices, in fact, have already stagnated over the past six months both at the national level and in some of Canada’s largest markets (including Vancouver, Toronto and Hamilton). This contrasted with a solid 7.3% increase for single-detached homes nationwide over that period. Growing interest in living outside major metropolitan areas is also heating up prices rapidly in smaller markets. In Ontario, for example, Woodstock, Bancroft, London and Brantford recorded some of the larger gains in the MLS HPI in September. We expect this to continue as strong demand exerts intense pressure on these markets’ relatively small housing stocks.

### Many questions should be answered in the coming months

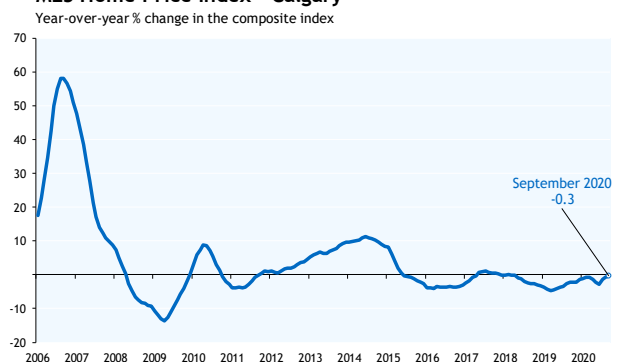
The coming months should provide more precise clues about the market’s direction in the year ahead. We’ll see whether low interest rates and changing housing needs can keep demand boiling hot, or whether the exhaustion of pent-up demand and plummeting immigration will cool things down. We’ll also learn how many current homeowners will be in trouble once mortgage payment deferrals expire and are forced to sell. And of course, we’ll get a better sense of the broader economic and market impact of the second wave of the coronavirus in many parts of the country. While we are generally positive on Canada’s housing market outlook, answers to these questions should tell us what kind of risks—both upside and downside—threaten to emerge.

### MLS Home Price Index - Vancouver



Source: CREA, RBC Economics

### MLS Home Price Index - Calgary



Source: CREA, RBC Economics

### MLS Home Price Index - Toronto



Source: CREA, RBC Economics

### MLS Home Price Index - Montreal



Source: CREA, RBC Economics

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.