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TD Economics

Data Release: Softer ending to a great year for Canadian housing

- The Canadian existing home market had a great year in 2016 overall, with sales hitting record levels and prices up by almost 11% during the year - mostly driven by Toronto and Vancouver. Conditions started to soften towards the end of the year, however, with Toronto being the last market booming at the end of 2016.
- Existing sales, were up 2.2% m/m in December. But, this gain only made up for less than half of the outsized decline in November, with sales still down 5% year-over-year.
- The average home price rose by just 3.5% year-over-year in December and declined by 1.9% on a monthly basis. However, this partly reflected a shift in sales with the uptick in the expensive Vancouver (+2.5% m/m) market outpaced by a surge in activity in Saskatoon (+14%), Calgary (+19% m/m) and Edmonton (+17% m/m).
- Adjusting for location and housing type, prices were still up a robust 14.2% year-over-year, with prices for all housing types growing at a double-digit pace. Still, all markets where prices were rising at double-digit pace were in B.C. and Ontario.
- Vancouver sales stabilized in December, but were still down 40% year-over-year. Meanwhile, quality prices were still lofty relative to year ago levels, despite falling a fourth consecutive month in December.
- In contrast, Toronto continued to pull away from the other Canadian markets in December. Existing home sales were up just 1.0% in the month, but the constraint looks to have been largely related to a lack of listings (-7.1% m/m). The market tightened considerably, with inventory at under two months of sales – less than half the national average of 4.6 months. Both the average home price and MLS quality adjusted home price index were up close to 20% y/y in December in Toronto.

Key Implications

- Despite higher interest rates (mortgage rates are up 30 basis points since November) and tighter mortgage regulations, this morning's real estate report highlights that the party may not be over just yet.
- For one, even though the mortgage regulations have already kicked in, they do not apply to those who had a pre-approved mortgage prior to the October 1st implementation date. As such, the effect may not be fully felt until January.
- Moreover, TD Economics modelling suggests that the impact of higher mortgage rates is twofold. First, you get a near-term bump in sales as buyers try to get in the market ahead of rising mortgage rates. This rush to buy is followed by some give-back in activity over subsequent one to two quarters. As such, higher interest rates may not start to bite until the second half of this year.
- While interest rate movements of this magnitude have had very little impact on housing demand in the past (and keeping in mind that mortgage rates are still very low), rising overvaluations (particularly in the GTA) and the impact of lofty prices on affordability have made some markets more sensitive to higher interest rates.
- Home prices are expected to flatten out this year and next but the regional divergence underlying that trend remains wide. Prices are expected to remain depressed in Vancouver during 2017, but grow in the high-single digits in Toronto and a more moderate 3% to 5% elsewhere. While the oil beleaguered markets have perked up, high unemployment will continue to limit home price growth over the next two years. Meanwhile, Montreal, which has been a job creating spree in the last six months, may become

one bright spot. The job market in Quebec was a top performer at the end of 2016, which coupled with balanced conditions should help boost housing demand even as rates rise modestly.

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