April 15, 2016

TD Economics

Data Release: Continued rise of the real estate market in March

- Canadian existing home sales rose by 1.5% m/m in March, and were up a strong 12.2% from last year, with sales breaking previous monthly records.

- Listings fell 1.4% in the month, pushing the sales-to-listings ratio up to 61.7% in March, up 2.2 percentage points from the prior month, and above the 60% threshold often considered a sellers' market. The rising degree of bargaining power held by sellers has helped push average existing home prices up 15.7% year-over-year.

- Ontario and British Columbia housing markets continued to drive the national narrative. Almost all of the markets currently in seller's territory (which make up just under half of Canadian activity) are found these two provinces. While sales in Greater Vancouver and Greater Toronto edged down slightly from February as activity was pulled forward by changes to mortgage insurance regulation, they remain near all-time highs. In fact, the MLS HPI rose 23.2% in Vancouver and 11.6% in Toronto from the year prior, building on gains from the previous month. By contrast, Calgary homes continue to devalue, down 3.7% from a year ago. Likewise Saskatoon prices slipped 2.7% from the same time last year.

Key Implications

- New down payment requirements for insured mortgages between $500K and $1 million kicked in on February 15th. As such, we expected that the jump in February sales numbers in Vancouver and Toronto might be slightly overstated, as people rushed to purchase before rule implementation. We saw a very modest pullback in these markets in March, in line with our expectations, but the rule changes had little effect nationally as they were targeted at a small share of the market.

- Low interest rates will continue to support the housing market, helping offset the slight rise in national unemployment which we expect will nudge up to 7.5% by mid-year. Regionally, the divergence among the Canadian housing markets is expected to become even more pronounced throughout 2016. The weak economic conditions likely to prevail in the Prairies will feed through into a broadly weakening housing market. On the other hand, low financing costs will be the key driver in markets that are more fairly balanced, like Montreal and Halifax, helping to absorb built up inventories. Deterioration in housing affordability in Toronto and Vancouver continues to erode the benefits of cheaper financing experienced in other regions. We expect affordability and new lending rules will temper demand and be leading factors in determination of future price growth.

- Overall, we expect Canadian home price growth to slow to below 3% y/y this year, but prices in Toronto and Vancouver should continue to grow well above that pace, though will decelerate for the remainder of the year. Over the longer-term, rising interest rates will gradually weigh on demand.

Warren Kirkland, Economist
416-983-7336

@TD_Economics