



TD Economics

November 15, 2016

Data Release: Canadian Real Estate Market shows signs of life ahead of full implementation of new mortgage regulations

- Canadian existing home sales seem to have broken the downward trend experienced through the middle of 2016, with sales up 2.4% in October, a second consecutive monthly increase. Sales were up 2.0% from year ago levels, but still 2.6% below the peak reached in April of this year.
- With listings up a smaller 1.7%, the market overall remained in seller's territory with the sales-to-listings ratio inching up to 62.9% in the month and month's of inventory falling to 4.5, the lowest level in over 7 years.
- The average home price measure rose 5.9% y/y in October, but that was the result of less sales occurring in the Greater Vancouver Area (the most expensive market across Canada). The MLS composite home price index (home prices on a quality adjusted basis), however, rose 14.6% from year ago levels, with double-digit price gains becoming more broad-based across housing types. Two-storey single-family detached home prices are still growing at the fastest rate (+16.7%), but townhomes (+16%) and apartments (+11.4%) were not too far behind.
- On a regional basis, Vancouver (+24.8%) and the Fraser Valley (32.5%) continued to have the strongest year-over-year home price gains, but growth rates have eased from the peak's reached in July of this year. In contrast, home prices in Toronto are accelerating with the MLS HPI rising by 19.7% y/y. Other markets are also starting to pick up as well, with price growth in Ottawa (+3% y/y) and Montreal(+2.6% y/y) and Regina (+4.5%) breaking the 1% to 2% price range they had been stuck in for the last few years. Meanwhile, despite what has been a strong bounce back in demand, prices in Saskatoon (-1.3%) and Calgary(-4.1%) continue to feel the pinch from lower oil prices and high unemployment.

Key Implications

- CREA noted that new mortgage regulations were implemented mid-October and thus have not yet started to impact housing market activity. Indeed, it may not be until the New Year until the full impact of new mortgage regulations are fully felt. The rules do not apply to anyone with a pre-approved mortgage prior to October 17th and the biggest of the measures (changes to portfolio insurance regulation) will only be implemented on November 30th.
- The pickup in housing demand across most housing markets in Canada (except for Vancouver) is largely consistent with lower interest rates and potentially a near-term boost in demand as homebuyers try to get into the market before being subject to new mortgage regulations. Households can now borrow at a five year mortgage rate at as low as 2.14%.
- Market activity is expected to start the **New Year** off on a weaker footing, however, as the total package of new regulations are fully implemented and higher interest rates begin to bite. While mortgage rates have continued to edge lower, 5-year bond yields are up almost 30 basis points since the U.S. election last week.

- As such, we expect sales to edge lower in 2017, with prices expected to fall by almost 2%. Toronto and Vancouver are the most vulnerable to regulation changes and higher interest rates. We expect prices to fall 10% in Vancouver and, while relatively tight market conditions will keep Toronto's prices from falling, we expect price growth to moderate to 2% to 4% by next year.

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