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TD Economics

Data Release: One major Canadian housing market left to go

- Following a five-month trend decline, Canadian existing home sales rose 0.8% m/m in September and are up 4.2% year-over-year. However, sales are still down 5.6% from the record level hit in April of this year.
- Listings rose a modest 0.5% in the month, helping to keep the sales-to-listings ratio steady at around 62%, which is still indicative of a seller's market overall. As such, home prices were up strongly, both on a quality adjusted basis (+14.4% y/y) and as an average of sales basis (+9.5% y/y). Price pressures have become wide-spread across housing segments with townhomes up 16% y/y, single-detached home prices up 14% and condo prices up 11.1%.
- The GTA market and surrounding areas (Burlington, Hamilton and Barrie) continued to lead the strength in both sales and prices. GTA sales rose to a new record high, while prices were up a whopping 18% year-over-year. Markets within Ontario remain the tightest across the country with only 1 to 2 months of inventory – less than half the 4.7 months of inventory nationally.
- Market activity continued to cool in the Greater Vancouver Area, and bigger surrounding areas. Existing home sales fell for the sixth straight month and the market has rebalanced from being in seller's territory earlier this year. While gains in the composite MLS HPI remained a scorching 28% year-over-year, this marks a deceleration from the above 30% gain recorded earlier this year. The index has now fallen for two straight months on a monthly basis, led by prices of detached single-family homes.
- Elsewhere, more balanced market conditions have kept prices rising at a sustainable and moderate pace. The MLS HPI was up 2.7% year-over-year in Montreal and Ottawa,4.2% in Moncton and 4.9% in Regina, with the latter bouncing back from the correction that took place over recent quarters. Prices remained depressed in Calgary (-4.1% y/y) and Saskatoon (-1.2% y/y).

Key Implications

- Economists often say the trend is your friend, until the bend at the end. It would appear that the trend in the Greater Vancouver Area has in fact bent earlier this year, and excesses are continuing to unwind. The foreign land transfer tax has helped accelerate that process, completely wiping out foreign investment activity from the market recently. As such, activity is returning to more normal levels, following a year of excessive growth.
- The million dollar question now is whether foreign investment has shifted east and Toronto has become the new Vancouver. With record immigration in 2016 and the strong growth in prime first-time homebuyer population, the fundamental factors supporting housing activity appear stronger in Toronto than Vancouver – helping drive existing home sales and prices up. Having said that, the sales-to-population ratio in Toronto has risen sharply recently, suggesting that foreign investment and speculation are playing a part, albeit likely smaller than in Vancouver.
- A number of new regulatory and tax measures announced by the federal government last week and set to come into effect in this month and next will likely help take some steam out market activity in through 2017. This is the sixth time in eight years that the government has tightened mortgage regulation, and in each event, sales have fallen between 6% and 14% in the following three to six months. The difference this time around is that the rules are more broadly targeted at insured borrowers (raising the bar on income testing), lenders (restricting the use of portfolio insurance) and foreign investors and speculators (increasing oversight of capital gain taxes on real estate and restricting non-residents from taking advantage of the principal residence exemption). As such, we expect that the regulations will shave as much as 10% off of existing home sales and up to 1% off of home prices next year. The impact is

expected to be more pronounced in Toronto where activity is starting to look a little frothy but should be spread across the country.

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