

Insights

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MONTHLY HOUSING MARKET UPDATE March 16, 2020 February's housing market's vigour to fade as virus weighs on activity □ Home resales surged across the country last month: More favourable weather brought much needed supply to market, which set the stage for a buying frenzy. The 5.9% m/m resale gain in Canada in February (to 546,000 units, annualized) was the biggest burst of activity in more than two years. All major markets except Winnipeg recorded an increase from January. □ Sellers were in control east of Manitoba: Demand-supply conditions remained generally tight despite an outsized 7.3% m/m rise in new listings country-wide. Buyers in Montreal, Ottawa-Gatineau, Halifax and parts of southern Ontario were under heavy pressure in the face of low inventories. □ Property values heated up the most in almost two years: Canada's MLS Home Price Index accelerated to a y/y rate of 5.9% from 4.6% in January. Ottawa (+14.5%), Montreal (+10.4%) and Toronto (+10.2%) all posted double-digit increases. Vancouver's index rose above its year-ago level for the first time in 16 months.

□ COVID-19 is about to change everything: Unprecedented measures to slow down the spread of the coronavirus—including social distancing—have the potential to bring house hunting activity to a virtual halt this spring. An expected recession marks a further deterioration in the market's near-term outlook.

□ Home resales are poised to dive though prices could hold up: The very tight starting position of most markets across the country provide property values some cushion against a correction. Potential sellers are also likely to hold off putting their home up for sale under the circumstances which would help demand-supply conditions stay in balance. The light switch was definitely 'on' in February... For what it's worth, Canada's housing market roared last month as the threat of COVID-19 still seemed at bay. Kinder weather—or was it a prescient move to get ahead of a looming coronavirus crisis?—inspired more sellers to list their property for sale, which finally helped quench some of the plentiful pent-up demand. A drop in supply had restrained activity in most major markets in the previous couple of months. Yet demand-supply conditions were still tight—and in some cases, very tight—in February even with the rise in new listings. This is perhaps the biggest takeaway as buyers and sellers get set to hunker down in the face of the coronavirus. Most local markets enter this challenging period from a position of Robert Hogue | Senior Economist | 416-974-6192 | robert.hogue@rbc.com 546 200 300 400 500 600 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 Source: CREA, RBC Economics Thousand units, seasonally adjusted and annualized Home resales in Canada 0.64 0.10 0.20 0.30 0.40 0.50 0.60 0.70 0.80 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 Seller's market Balanced market Buyer's market Source: CREA, RBC Economics Seasonally adjusted Sales-to-new listings ratio in Canada Home resales New listings MLS HPI (Composite) Sales-to-new listings ratio Region Y/Y %change Y/Y %change Y/Y %change Y/Y %change Canada 26.9 7.5 5.9 0.64 Toronto 44.4 8.0 10.2 0.64 Montreal 23.2 -3.7 10.4 0.91 Vancouver 44.5 3.6 0.3 0.53 Calgary 19.9 15.5 -0.9 0.52 February market snapshot 5.9 -15 -10 -5 5 10 15 20 25 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 Year-over-year % change in the composite index MLS Home Price Index - Canada Source: CREA, RBC Economics

MONTHLY HOUSING MARKET UPDATE | APRIL 13, 2018 2 **MONTHLY HOUSING MARKET UPDATE | MARCH 16, 2020** strength. In fact, under normal circumstances, markets like Ottawa, Montreal, Halifax, London, Kitchener-Waterloo, Hamilton and even Toronto could use some degree of cooling, as they are at various stages of overheating. ...though it's about to be turned 'off' The world has changed

in March. And so has the outlook for Canada's housing market. Unprecedented measures to slow down the spread of the coronavirus—including social distancing—have the potential to bring house hunting activity to a virtual halt this spring. Even if not directed to sit things out by health authorities, buyers will have plenty of excuses to take a wait-and-see approach. The plunge in global equity markets will hurt buyers who were counting on equity investments for their down payment. 24-7 COVID-19 news coverage and a mounting economic toll (e.g. layoffs and work hour reductions) are bound to shake confidence. Lower mortgage rates might keep the market going at first but ultimately won't stop bearish sentiment setting in. A price collapse is unlikely. We now expect home resales to plummet across the board in the coming weeks. In all likelihood, this will be a temporary hit with a rebound taking place later this year once the COVID-19 situation settles down—though the timing and magnitude of the rebound are highly uncertain at this point. Despite it all, we expect property values to generally hold up. We believe the position strength—current tight demand-supply conditions in most major markets—will provide some cushion against a correction. Our base case scenario has the recent acceleration in home prices in Toronto, Vancouver, Ottawa and Montreal tapering off in the period ahead. The price outlook isn't as rosy in the prairies, however, where softer market conditions and the plunge in crude oil prices are poised to further drive prices lower. 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. ®Registered trademark of Royal Bank of Canada. ©Royal Bank of Canada.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Year-over-year % change in the composite index MLS Home Price Index - Vancouver	-0.9	-20	-10	10	20	30	40	2006	2007	2008	2009	2010	2011	2012	2013
Year-over-year % change in the composite index MLS Home Price Index - Calgary	10.2	-10	-5	5	10	15	20	25	30	35	2006	2007	2008	2009	2010
Year-over-year % change in the composite index MLS Home Price Index - Toronto	10.4	-1	1	2	3	4	5	6	7	8	9	10	11	12	2006
Year-over-year % change in the composite index MLS Home Price Index - Montreal															

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