

Experts see cooling of Canada's hot housing market

There might be an end in sight for some of Canada's red-hot housing markets.

The Ottawa-based Canadian Real Estate Association said existing homes sales were down 2.8 per cent in May from April on a seasonally adjusted basis and CREA, which represents about 115,000 realtors across the country, predicts 2017 will see a major levelling off in the market.

"The long-awaited cooling of Canada's housing market may be finally at hand," said Robert Hogue, senior economist with the Royal Bank of Canada. "Only time will tell. When you look at market conditions in Canada's two hot markets, it is still very, very tight."

Pressure has been building on the federal government to intervene in the housing market — even a couple of bank chief executives have expressed concerns about market conditions that saw Vancouver and Toronto resale home prices increase about 30 per cent and 16 per cent, respectively, in May from a year ago.

Even with the May drop in seasonally adjusted sales, on a yearover-year basis activity rose 9.6 per cent. The imbalance that drove prices up 13.2 per cent on a national basis in May, compared to a year earlier, has been tied to a massive drop in inventory.

Hogue said one of the unexpected events he's witnessed is people being reluctant to list their homes for sale because they can't afford a more expensive house as prices keep going up.

"At some point, the stretch in affordability is going to start weighing on the demand side, but it's clear affordability is now affecting the supply side first and causing people to stay put," the economist said.

CREA expects the rest of 2016 to remain strong — it has exceeded previous expectations — but predicts next year the market will flatten out.

The groups says 2016 will see a 6.1 per cent increase in sales, with a record 536,400 homes changing hands. However, once adjusted for population growth, 2007 remains the peak for housing sales in Canada.

By 2017, sales will moderate and only increase by 0.2 per cent, CREA predicts.

On the price front, the average home is now forecast to sell for \$490,700 in 2016, a 10.8 per cent annual increase. By next year, prices will be relatively flat, with the average sale price \$491,100.

"National sales activity and average prices reached new heights in the first half of 2016 amid a growing supply shortage of singlefamily homes in British Columbia and Ontario, particularly in B.C.'s Lower Mainland as well as in and around the Greater Toronto Area," CREA said, in a release.

CREA expects sales will rebound in Alberta and Saskatchewan in 2017 as oil prices increase and the provincial economies improve. It expects minimal price growth in those provinces next year.

British Columbia will see a decline in sales and prices by 2017. Ontario will see modest price growth of 1.5 per cent in 2017, with sales relatively flat.

The moderation in B.C. and Ontario is expected to impact national prices on the way down, just as it did on the way up. “In these two provinces, luxury sales activity is anticipated to recede from current levels, resulting in a decline in their share of total sales activity,” CREA said.

Gregory Klump, chief economist with CREA, said housing markets in B.C. and Ontario are slowing down now because inventory has fallen to all-time lows. “This suggests a lack of supply may be starting to rein in sales amid a continuation of strong housing demand,” he said.

He added that those province are running out of homes to sell in the \$3 million and up price range.

“The proportion of sales above that is just not predicated to rocket ever higher,” Klump said.