

Canadian housing showing strength, but not all markets are firing equally

Housing prices up from five years ago in large housing markets in the east and west, but lower in Alberta and Saskatchewan

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Residential sales across Canada increased by 26 per cent in July over June, and 30.5 per cent higher than in July 2019. Photo by David Bloom/Postmedia News files

A cross-country comparison of housing markets reveals housing markets are showing remarkable resilience except in Alberta and Saskatchewan.

Recently released data by the Canadian Real Estate Association (CREA) shows that national residential real estate sales are accelerating faster than new listings, and prices are up in most places except the Prairies. Housing prices are also up from five years ago in large housing markets in the east and west, but are lower in markets in Alberta and Saskatchewan.

Residential sales across Canada increased by 26 per cent in July over June, and 30.5 per cent higher than in July 2019. But as sales accelerated, indicating a higher-than-usual demand, the supply side lagged, with month-over-month new listings increasing by just 7.6 per cent.

The mismatch between demand and supply, with sales outpacing new listings, exerted pricing pressure such that the average housing price in Canada increased by 14.3 per cent in July from the same month a year ago.

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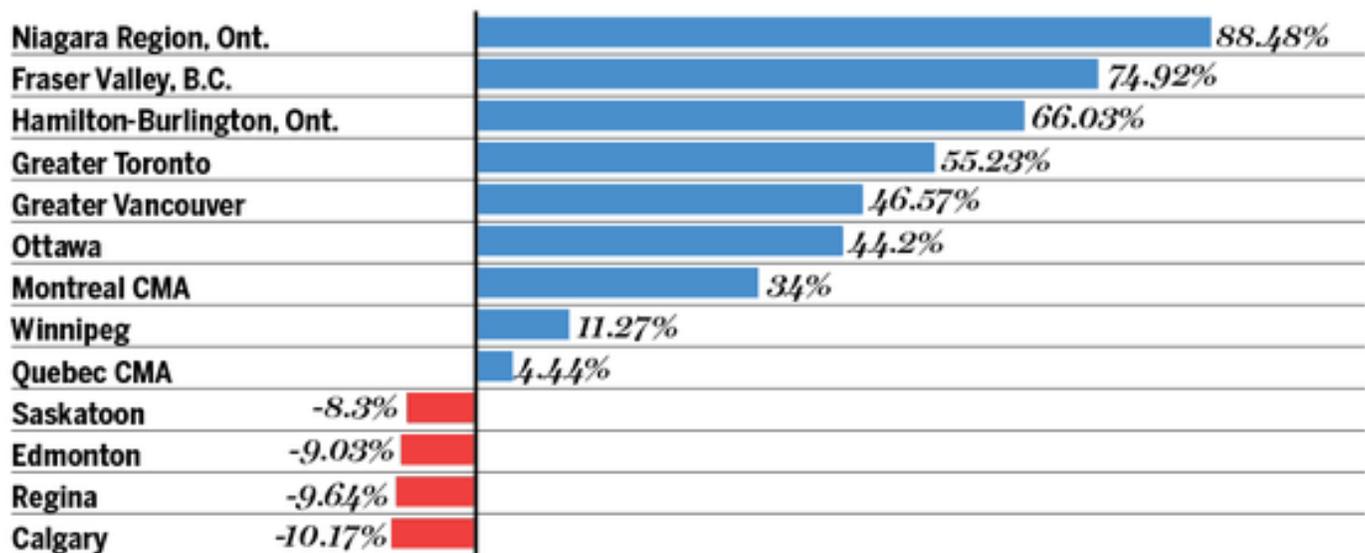
Canada's three largest housing markets led the charge, mostly as a result of the pent-up demand from forgone sales in March and April. Seasonally adjusted July sales were up by 49.5 per cent in the Greater Toronto Area, 43.9 per cent in Greater Vancouver and 39.1 per cent in Montreal over the previous month.

Sales volume was higher in July in the Prairies relative to last year, but the pace of growth was much slower than the more populous cities. Seasonally adjusted July sales were up by 15.7 per cent in Calgary, 9.7 per cent in Edmonton, 8.2 per cent in Regina and 5.6 per cent in Saskatoon over the previous month.

The slower growth in housing sales in the Prairies masks the broader economic struggles in Alberta and Saskatchewan resulting from the decline in crude prices. A comparative analysis of indexed benchmark prices, which allows for a comparison of structurally similar dwellings, shows that prices over the past five years in large markets were up except in Alberta and Saskatchewan.

HOME PRICES IN WEST TAKE HIT

Change in benchmarked prices from five years ago, July 2020, seasonally adjusted



SOURCE: CREA

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Benchmarked prices in July were down 10.2 per cent in Calgary, nine per cent in Edmonton, 9.6 per cent in Regina, and 8.3 per cent in Saskatoon over five years. By comparison, prices were up 55 per cent in the Greater Toronto Area, 47 per cent in Greater Vancouver and 34 per cent in the Montreal Census Metropolitan Area (CMA).

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Another sign of trouble was recently revealed by [Canada Mortgage and Housing Corp.](#) (CMHC), which reported higher mortgage deferral rates in

resource-extraction economies. Deferral rates were 21 per cent in Alberta, and 14.8 per cent in both Saskatchewan and Newfoundland, compared to 10.1 per cent in Ontario and 5.6 per cent in Quebec.

The largest price increases over five years were recorded in smaller towns within the commuter shed of more populous markets. For example, benchmarked five-year prices in July increased by 88.5 per cent in the Niagara Region and 66 per cent in the Hamilton-Burlington area near Toronto. Similarly, prices were up by 75 per cent in Fraser Valley near Greater Vancouver.

The accelerated price increases in the satellite towns near large urban centres suggest that smaller towns are narrowing the price gap with their larger neighbours. Consider that prices in the Greater Toronto Area five years ago were 226 per cent higher than those in the Niagara Region, but that gap was reduced to 186 per cent in July.

Affordable small towns within the commuter shed of larger, more expensive towns might experience greater demand during COVID-19 as homebuyers have expressed renewed interest in larger dwellings, which are more affordable in the remote suburbs.



A home for sale in Montreal. Photo by Christinne Muschi/Bloomberg

Housing markets in Montreal and further east are also showing strength, with sales and prices mostly higher over the past 12 months. The Quebec City CMA, the second-largest market in Quebec, reported a 43 per cent increase in July sales from five years ago.

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Surprisingly, benchmarked prices were up by just 4.4 per cent over the same period. A strong post-pandemic economic recovery might push prices higher in places such as Quebec City that have not experienced a large increase in prices over the past five years.

Housing markets are being held together by mortgage forbearance and income support measures implemented by lenders and governments to limit COVID-19's adverse impact on the economy and consumption. The preliminary numbers for August sales and prices hint at the continuation of increasing sales and rising prices, at least partly supported by income support measures, which might be extended into 2021.

At the same time, recent gains in employment suggest an economic recovery, as do reports suggesting that mortgage [deferrals are in decline](#) — some borrowers apparently opted to defer as an early precautionary measure — even though CMHC is reporting that almost 14 per cent of the [mortgages are in deferral](#).

The housing market outlook depends upon the pace of any economic recovery and the extension of income support and deferral programs. Much is not known with certainty. Hence, it will be prudent for homebuyers to respond to uncertainty with caution and restraint than exuberance.

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