2020 Housing Outlook:
Rising Sales And Tight Supply To Heat Up Prices

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Highlights

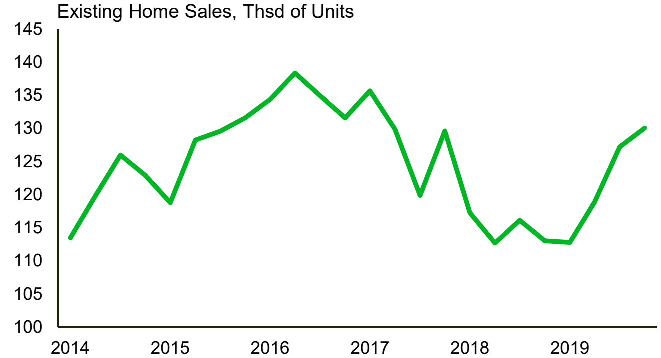
- 2019 marked a year of recovery for Canadian housing markets, sparked by low rates, robust population growth, healthy job gains and further distance from restrictive macroprudential measures.
- At the same time, home price growth accelerated amid tight supply-demand conditions across much of the country. Price appreciation now resembles what it did prior to the implementation of the B-20, Bank of Canada rate hikes, and Ontario's Fair Housing Plan.
- The drivers supporting last year's recovery should remain in place. As such, sales should climb higher this year, with broad-based gains expected across provinces. However, these factors are unlikely to provide the same thrust as they did in 2019, setting the stage for gains to decelerate as the year progresses.
- A lack of available supply will have a significant impact on markets, both through restraining sales growth and upwardly pressuring prices. Indeed, Canadian home prices are likely to expand at their fastest annual pace since 2016 this year.

2019 marked a year of recovery for Canadian housing markets (Chart 1), after activity was dampened by the implementation of the B-20 guidelines and rising mortgage rates the year prior. Canadian home sales advanced by 6.5%, driven by a sharp recovery in B.C., further gains in Quebec and rising activity in Ontario. To put things in perspective, the tally of 489,000 units sold this past calendar year was above the nation's 10-year average of 481,000 units though still down from the all-time high of 540,000 sales recorded in 2016. Meanwhile, the combination of increasing home sales and falling resale supply tightened markets, especially in the second half of the year. Accordingly, after falling in 2018, average price growth returned to positive territory, spurred by solid advances in Ontario and Quebec.

Looking ahead to 2020, the drivers supporting last year's recovery should remain largely in place and manifest across most provinces, resulting in higher sales and prices (Table 1). However, they are unlikely to provide the same thrust to activity as they did in 2019, setting the stage for sales gains to decelerate as the year progresses. Our expectations as to how our forecast drivers will evolve this year are as follows:

- Employment: We look for job growth to decelerate in 2020 after last year's strong outturn gives way to a more sustainable rate. Influences likely to dampen hiring demand increasingly going forward include continued subdued output trends in the economy as well as a growing scarcity of workers. A corresponding uptick in the unemployment rate is anticipated,

Chart 1: 2019 a Year of Recovery for Housing Markets



Source: CREA, TD Economics

Table 1: Forecasts

	Home Sales (% Chg.)			Home Prices (% Chg.)		
	2018	2019	2020F	2018	2019	2020F
National	**-10.8**	**6.5**	**10.8**	**-3.5**	**2.3**	**7.8**
Newfoundland & Labrador	-5.2	9.7	5.6	-1.4	-3.0	-0.4
Prince Edward Island	-4.5	-7.4	8.0	4.5	11.6	3.9
Nova Scotia	5.2	10.2	7.3	5.7	2.6	5.2
New Brunswick	1.3	13.5	7.1	3.0	8.1	6.7
Québec	4.7	11.8	9.0	5.3	5.1	4.3
Ontario	-13.1	8.9	9.2	-1.7	6.2	7.0
Toronto	-15.8	12.4	10.0	-3.1	4.1	7.7
Manitoba	-6.0	8.5	5.9	1.2	0.1	2.6
Saskatchewan	-7.0	2.1	7.3	-2.3	-0.9	0.6
Alberta	-7.2	-0.2	6.8	-2.4	-2.4	1.2
Calgary	-14.0	2.0	8.6	-1.1	-3.6	1.0
British Columbia	-24.5	-1.5	23.9	0.8	-1.4	8.1
Vancouver	-31.6	2.5	39.3	2.2	-5.6	3.5

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at December 2019.

though it will remain quite low in historical terms and consistent with continued solid wage growth in the 3-4% y/y range. Regionally, job growth is likely to slow, but remain positive, across all provinces with the sole exception of Alberta where gains are poised to accelerate on an annual average basis.

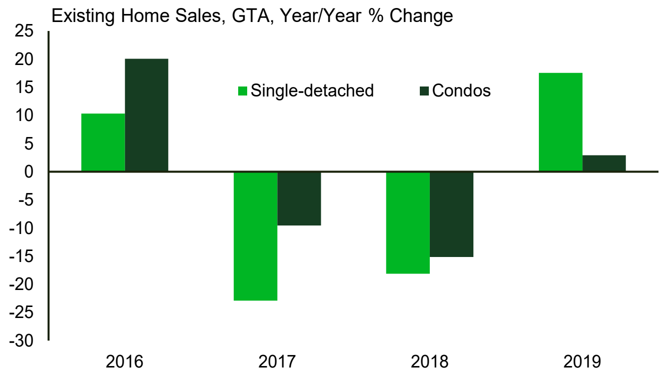
- Interest rates: By some measures, mortgage rates dropped by about 70 basis points from their December 2018 levels last year as global growth worries and easier monetary policy pushed global bond yields lower. Canadian yields were taken for the ride, despite the Bank of Canada remaining on the sidelines. This year, we expect global bond yields to be pressured higher on the back of improved sentiment, though only after fears surrounding the coronavirus dissipate in coming months. With Bank of Canada officials likely sensitive to the impact of higher yields on heavily indebted households, we expect the central bank to lean against this trend by nudging its policy rate lower by 25 bps this spring. The result: medium-term yields should climb higher from current levels but remain marginally lower, on average, compared to 2019. In this event, interest rates are unlikely to offer the same type of support as what was seen last year.
- Population growth: Rising federal immigration targets suggest that 2020 will be another solid year for population growth in Canada. Inflows of non-permanent residents have been strong in recent years, supported by foreign students. Further strength could be in the cards for 2020, as the drivers propping up the latter category generally remain in place.
- Government policies: It's been about 2 years since the implementation of the B-20. It's also been about 2 years since the B.C. government expanded its suite of macroprudential measures targeting foreign buyers, vacation properties and higher-end homes. Additionally, it was nearly 3 years ago that the Ontario government implemented the Fair Housing Plan. These durations have allowed opportunity for markets to adjust to these policies, lessening the extent of their restraint. At the federal level, policies appear to be turning demand-supportive, with measures to help first time homebuyers likely to modestly lift sales and prices this year. In addition, Minister Morneau has a mandate to review the B-20 and make it more "dynamic", though it remains to be seen what this might entail. On the opposite end, he is also tasked with implementing a one percent annual vacancy and speculation tax, which could gain enough support from other parties to pass and weigh on activity.
- Available supply: Last year, both new and active listings lagged well behind sales. This was not an isolated occurrence, as resale supply has generally underperformed sales for several years. And, our expectation is that this will continue in 2020. This is extremely important for our outlook because the relative lack of resale supply will have the two-pronged impact of restraining sales growth and further tightening market conditions. This, in turn, will add upward pressure to prices. Annex 1 details our take as to why, for several years now, listings have been so listless.

With these broad drivers in mind, lets now focus on some of the key developments shaping markets in various regions across the country.

Prices Heating Up in Toronto and Vancouver, Fueling Gains in Ontario and B.C.

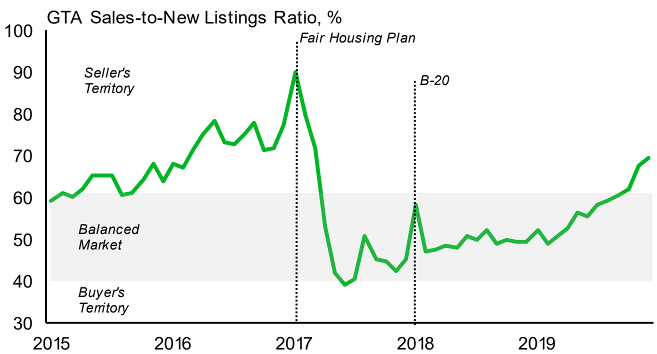
Toronto's market displayed some interesting dynamics last year. The recovery in sales was driven by the single-detached segment – a first since 2012 (Chart 2). In retrospect, this outperformance is unsurprising, as levels were at multi-year lows the year prior. Given extremely tough affordability conditions within the single-detached market, one might have assumed that less expensive properties drove the sales gain. However, that was not the case

Chart 2: Sales of Single-detached Units Outpace Condos for the First Time Since 2012 Last Year



Source: CREA, TD Economics

Chart 3: GTA Markets Are Extremely Tight, Thanks to Rising Demand and Weak Supply Growth



Source: CREA, TD Economics

as properties priced above the median accounted for most of the growth. This dynamic was probably explained in part by the fact that condo price growth was yet again very strong, providing significant equity, and therefore ability, for buyers to trade-up into these more expensive units. Note that late last year, the gap between the median price of a single-detached home and condo was the narrowest since 2011. And, tighter conditions in the condo market suggests that this gap will be maintained, or could narrow further, in the near-term. This will provide a boost to move-up buying and overall activity.

Beyond this factor, the demographics of the region should support activity, particularly as the population of those aged 25-44 (which captures most first-time homebuyers) has increased sharply in recent years. Meanwhile, survey evidence points to first-time homebuyers tapping family and friends for down payment assistance to a growing extent, which should help them tackle affordability challenges.

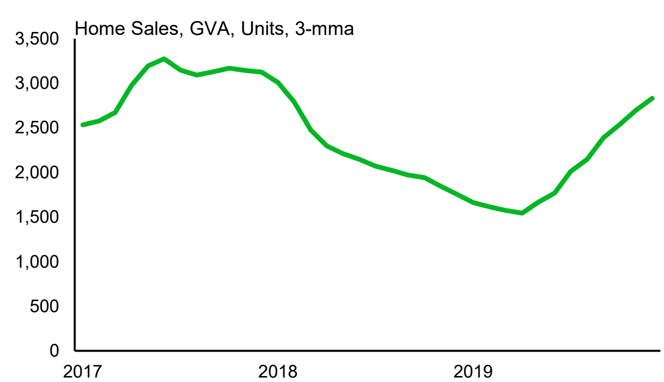
While sales in the GTA are set to increase this year, the fact that price growth is heating up is arguably the larger story. Indeed, after a 4% gain in 2019, we are forecasting an acceleration in price growth to 8% this year as rising demand interacts with constrained supply. On the latter point, active listings were lower last year, and new listings also declined, leaving the sales-to-listings ratio well into seller's territory to close 2019 (Chart 3). Importantly, single-detached prices are now growing positively after a detour in 2018, and growth in the condo segment remains strong.

The outlook for the GTA's market is not without risks. Affordability is now the poorest it's been since the frenzied days of 2017. And, while affording a home remains a difficult proposition in the single-detached market, robust price growth in recent years has also eroded condo affordability to a massive extent. Indeed, median condo prices rose 8% in 2019 and are up a staggering 60% since the end of 2015. This makes them a tougher purchase for potential owner-occupants and raises the carrying costs for prospective investors, including through higher maintenance fees and property taxes. These forces could exert even more downward pressure on the condo market than we are anticipating, weighing on overall activity.

Markets remain tight outside of the GTA, with supply-demand balances returning to where they were prior to the implementation of the Fair Housing Plan in 2017. As such, another year of strong price growth is likely in the cards for the province overall.

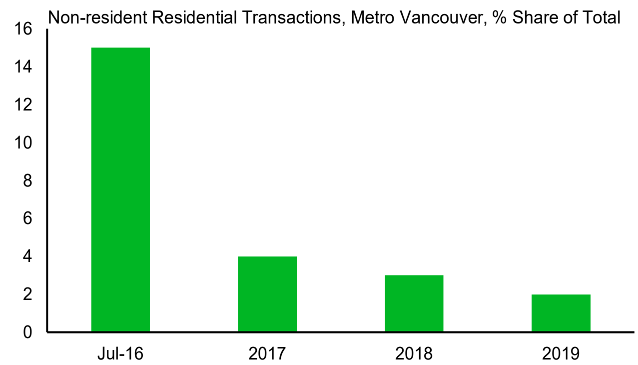
Vancouver's market has undergone a sharp recovery since the spring (Chart 4). Low mortgage rates coupled with falling prices has encouraged buyers to come off the side-

Chart 4: Improved Affordability Drives Recovery in Vancouver



Source: CREA, TD Economics

Chart 5: Transfer Taxes Kept Non-Resident Buying Low Last Year



Source: B.C. Government, TD Economics

lines, unlocking significant pent-up demand built up in recent years. As a result, rising sales of single-detached and row housing fueled a 50% surge in activity since April. Notably, gains were stronger for relatively inexpensive properties, suggesting a muted influence from foreign buyers, consistent with government data showing the same result (Chart 5).

Despite surging sales, the level of activity remains relatively low. This suggests further room to run. Accordingly, we are forecasting a strong sales gain this year, supported by much improved affordability. Notably, increased demand should result rising prices this year, building on the positive momentum observed in the second half of 2019. Our forecasted 4% gain in annual average price growth would mark the strongest since 2016.

Major markets outside of the GVA have held up better in recent years. This smaller downside for sales transformed into lesser upside in these markets in 2019. This year should bring much of the same, as the GVA outperforms the province overall in terms of sales growth. However, because the stock of housing in Vancouver is so expensive relative to other jurisdictions in B.C., a sharp gain in GVA sales will cause provincial price growth to be comparatively stronger.

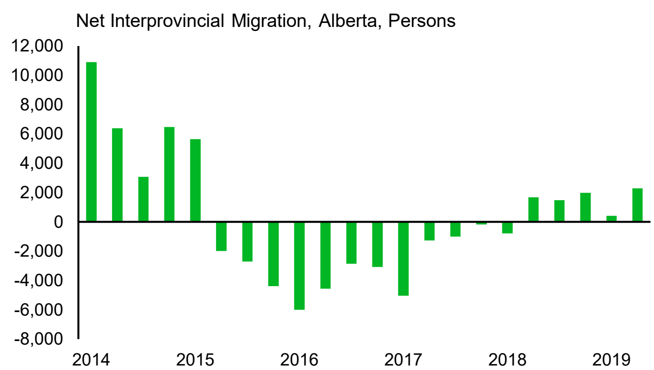
Prairies – The Return of Rising Prices

Last year, Alberta's promising early-year sales uptick dissipated by May, giving way to a flatlining in activity. Sales also declined in the fourth quarter, meaning that markets entered 2020 on the back foot. On the supply side, new listings were sharply lower last year as they fell the most of any province.

However, 2020 should bring somewhat improved fortunes for the Wild Rose Country. For starters, economic growth is forecast to gradually pick up after a tepid 2019 showing, yielding improved job growth. What's more, population growth is accelerating, with year-on-year growth in the fourth quarter of 2019 the fastest in over 4 years. Gains have been supported by a turnaround in interprovincial migration, which has been positive since mid-2018 (Chart 6). It's important to note that, despite a projected pickup in activity, the level of sales will remain quite low on an historical basis.

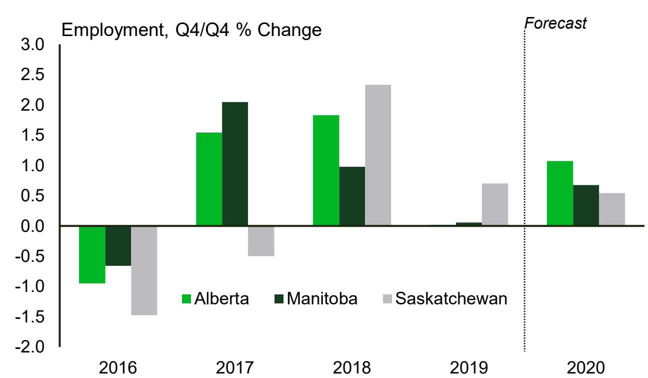
We are also expecting rising sales in Saskatchewan and Manitoba this year, driven by on-going job growth (Chart 7). Attractive affordability conditions will help in the former market while the latter could see a boost from federal policies supporting first-time homebuyers. This is because Manitoba's stock of housing generally falls below the qualification threshold imbedded in the federal First Time

Chart 6: Improving Interprovincial Migration to Support Housing Demand in Alberta



Source: Statistics Canada, TD Economics

Chart 7: Job Growth to Support Rising Sales in the Prairies This Year



Source: Statistics Canada, TD Economics

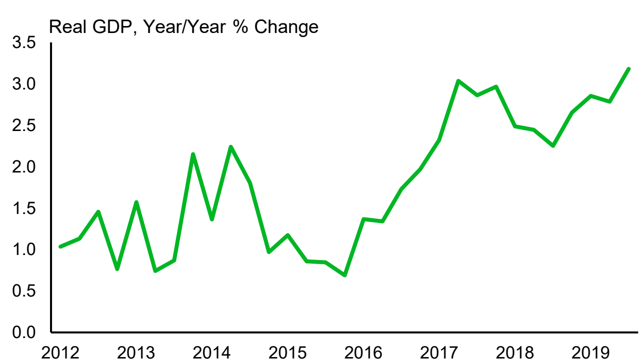
Homebuyers Incentive, the population is comparatively young (suggesting a disproportionate presence of first-time homebuyers), and affordability is still challenging, despite muted price growth in recent years.

As sales rise, this should result in modestly positive price growth in Alberta, with the projected 1% gain the fastest since 2014. Meanwhile, Saskatchewan should also get there, after experiencing dropping prices for the prior 5 years. In Manitoba, tighter conditions will lead to accelerating price growth. In all three cases, appreciations are expected to be relatively modest, and well below the rate of inflation in Alberta and Saskatchewan. That's because these markets are still dealing with varying levels of excess supply, including for new homes, resales and rental units.

Quebec and the Atlantic Provinces – Markets Remain Tight

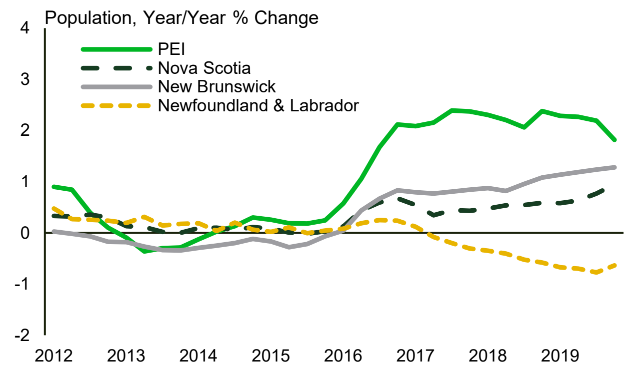
Quebec's market has been bolstered in recent years by strong economic conditions (Chart 8) and non-resident buying (although the latter is difficult to precisely quantify). In the Atlantic Region, accelerating population growth (Chart 9) in tandem with attractive affordability conditions has provided a tremendous lift to sales in most of the Atlantic Provinces (Newfoundland and Labrador, plagued by weak economic conditions, remains the exception). At the same time, demographic constraints have kept supply growth subdued in Quebec and across most of the Atlantic provinces (see Annex 1). As a result, markets have tightened up significantly, with sales to listings ratios 50% above their long-term averages in Quebec and 30% above in the Atlantic Region (Chart 10). As a result, price growth has heated up in places like Montreal, Halifax and Moncton.

Chart 8: Strong Economy Powering Housing Markets in Quebec



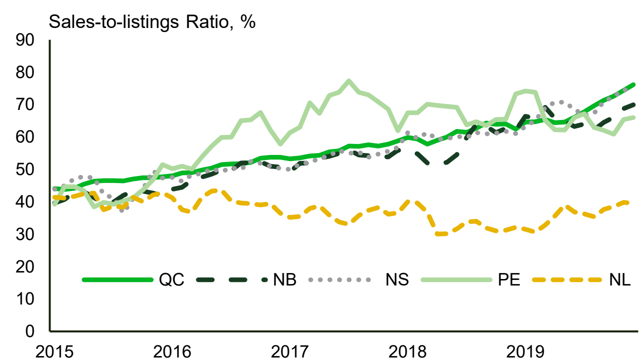
Source: Institut de la Statistique du Québec, TD Economics

Chart 9: Robust Population Growth Supporting Housing Demand in the Atlantic Region



Source: Statistics Canada, TD Economics

Chart 10: Markets Firmly Entrenched Deep in Seller's Territory in Quebec and the Atlantic Region



Source: CREA, TD Economics

Prince Edward Island, meanwhile, saw double digit growth in home prices last year.

In terms of our outlook for 2020, perhaps no other part of the country encapsulates our view on how this year will play out quite like Quebec and the Atlantic Region. On the one hand, moderating job growth in these provinces is likely to pull sales down with it. However, tight supply-demand balances should push prices even higher, further eroding affordability. Newfoundland and Labrador remains the exception to our view on prices, as oversupply will weigh on price growth.

Bottom Line

After a year of recovery in 2019, we look for sales and prices to continue rising this year (although gains should ease as the year progresses). This outlook represents a bright spot for the Canadian economy at a time when consumer spending is lagging, elevated uncertainty is restraining business investment, and a soft global backdrop is weighing on exports.

The prospect of a rate cut by Bank of Canada, alongside another year of continued job gains and robust population growth underpins our forecast for rising sales and prices. Additional supportive factors include the fact that past government policies are likely exerting less restraint on markets, while new policies are supportive first-time homebuyers. Of note, our forecast for rising prices would be consistent with the Bank of Canada's Canadian Survey of Consumer Expectations, where households' forecasts for future house price growth are the highest they've been in 1 ½ years.

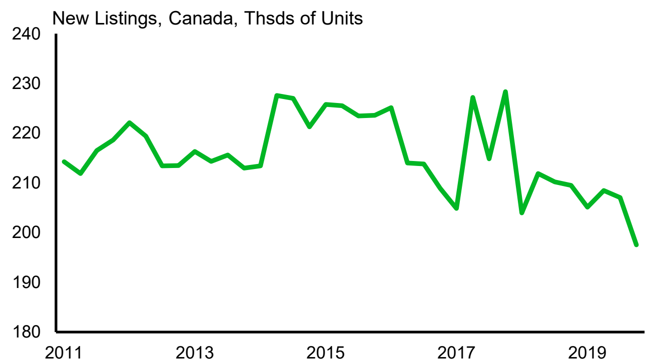
On the other hand, growth in resale supply is likely to lag sales yet again this year. This should put downward pressure on sales while having the opposite effect on prices. And, although we account for this factor in our forecast, it's possible that this restraint has an even larger impact than what we're anticipating. Another major risk to our forecast includes the possibility that severely eroded affordability puts the brakes on activity in Toronto. All in, it should be reasonably healthy year for Canadian housing markets.

Annex 1: Why Have Listings Been So Listless?

In the resale market, supply growth has been relatively muted for almost a decade (Chart 11). As our economics textbooks tell us, when supply is constrained, prices will react more aggressively to rising demand. Not only that, a low supply of homes available for purchase acts as a restraint to sales, through restricting the choices available to potential home owners.

Since 2011, both new and active listings in the resale market have generally been flat. And, from 2014 onwards, both new and active listings have generally not kept pace with sales growth (the exceptions were 2017 and 2018, where macroprudential measures distorted both demand and supply). This trend is not unique to Canada, with the U.S. also experiencing weakness in listings activity.

Chart 11: Growth in Resale Supply Has Been Exceedingly Weak



Source: CREA, TD Economics

So, why has supply underperformed? In our view, there are several potential explanations:

- The population is getting older: Since 2011, the share of the Canadian population aged 55+ has risen from 27% to 32%. Canadian homeownership rates tend to stop rising around the ages of 50-54, implying that older Canadians tend to move less. Contributing to this trend, many seniors are finding that aging-in-place is an attractive option. As an increasingly older population chooses to remain where they are, this removes potential supply from the resale market. As many of these older Canadians live in single-detached housing, the result is a dearth of available single-detached properties on the market. This, in turn, hampers younger move-up buyers who are looking to trade up into more spacious units, forcing them to remain where they are for longer than intended. The data bears this notion out, as active listings for both single-detached units and condos have declined, on average, since 2011. Notably, provinces with older populations have generally seen larger declines in new listings.
- Part of the story appears to be cyclical: in 2019, Canadian new listings declined by 2.1%. While there were declines across almost all provinces, the sharpest drop, both in level and percentage terms, occurred in Alberta. There was also a big drop in Saskatchewan. Of course, both provinces continue to struggle with soft economic conditions and falling home prices.
- There is likely less speculative activity: The significant measures undertaken by governments and regulators, alongside slower overall market activity, have appeared to reduce the extent of speculative buying in Canada's largest markets over the past few years. Less speculative activity would mean less instances of the same property being listed multiple times in a relatively short time span.
- New housing completions are lagging: Completions as a share of units under construction hit their lowest level on record in the fourth quarter of 2019. This suggests that it's taking longer to deliver new housing supply. This is partly a function of the fact that apartments have consumed an increasing share of overall homebuilding, and these units generally take longer to construct. In addition, the trend in actual completions has been flat since the recession. These units eventually hit the resale market, so their sub-par performance is negative for existing housing supply.

- People are moving less in general: In the U.S., the number of people who moved hit its lowest level since the 1950's last year. Reasons attributed to this phenomenon include an aging population and the rise of regional inequality, where job opportunities are more plentiful in "superstar cities", giving less incentive to move away. The share of Canadian households who are moving is also on the decline (Table 2). As mentioned, Canada's population is aging. And, while regional inequality is not quite as pronounced in Canada as it is in the U.S, some signs are apparent, and it could intensify in coming years (see report).
- Government policies: Most provinces and some municipalities collect land transfer taxes. Studies of the Toronto's land transfer tax point to a large negative impact on sales and mobility [1,2]. Others suggest that the impact is not statistically significant[3]. Statistical analysis suggests that there has been a fundamental change in the behavior of Toronto's resale supply in the post-recession period. However, as several factors have likely combined to create this outcome, it is extremely difficult to tease out the impact from the land transfer tax. Nonetheless, it remains feasible that activity in Toronto is being restrained, at least to some extent, by the implementation of an additional land transfer tax in 2008.

Table 2:
Movers as a % of Total Home Owners

Age Group	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65+	**Total**
2006	85.1	75.7	44.2	26.0	19.4	12.1	**31.5**
2011	83.0	74.0	42.8	23.8	17.1	11.0	**28.9**
2016	87.6	71.1	40.8	23.0	15.9	10.5	**26.4**

Source: 2006, 2011, 2016 Census, TD Economics

Endnotes

1. Benjamin Dachis, Gilles Duranton, and Michael Turner, Sand in the Gears: Evaluating the Effects of Toronto's Land Transfer Tax, Commentary No 277 (Toronto: C.D. Howe Institute, 2008).
2. Benjamin Dachis, Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions, Commentary No. 364 (Toronto: C.D. Howe Institute, 2012)
3. Murtaza Haider and Anwar Amar, Did the Land Transfer Tax Affect Housing Sales in the Greater Toronto Area?", PowerPoint slides for presentation to the Institute on Municipal Finance and Governance, Munk Centre, University of Toronto, November 27, 2014. Available at https://munkschool.utoronto.ca/imfg/uploads/301/ltt_haider_anwar.pdf