

# Canada's housing market headed for another record year in 2021

January 13, 2021

In the end, the rollercoaster that was 2020 left Canada's housing market more or less where it started the year: full of bidding wars, escalating prices and exasperated buyers unable to find a home they can afford. The pandemic changed some dynamics—it drove many buyers to the suburbs, exurbs and beyond, ground immigration to virtual halt, triggered a downturn in big cities' rental markets and caused households to build up their savings—but it didn't dial down the market's heat. We expect this to largely continue in 2021. We see little that will stop activity or prices from reaching new heights in the year ahead. We forecast the national benchmark price to rise 8.4% to \$669,000 and home resales to increase 6.5% to 588,300 units with almost all provinces showing gains. Yet we also expect cooling signs to emerge, which will come into fuller display in 2022. The main restraining factors will be a lack of supply, waning pandemic-induced market churn, a modest creep-up in interest rates and an erosion of affordability. Call it a 2022 soft landing. Of course, we can't exclude the possibility of a rougher landing—either in 2022 or earlier—so long as the pandemic remains a threat to our economy though large-scale vaccination campaigns should mitigate that risk.

## Property values have more upside

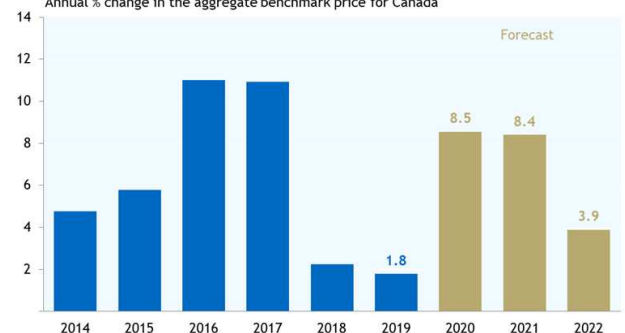
Not only did home price increases stay on track throughout the pandemic, the pace quickened. The aggregate benchmark price increased 8.5% in Canada in 2020, or almost five times the rate of 1.8% in 2019. We expect this solid momentum to be sustained in 2021 with a gain of 8.4%, underpinned by tight demand-supply conditions in most regions of the country. We see price support softening gradually over the course of the year, though, setting the stage for a more modest 3.9% appreciation in 2022.

## Gains will be strongest in Central Canada, BC and parts of Atlantic Canada

We project price trends to stay firm in most regions of the country, taking property values up 9.6% in Ontario, 9.0% in Quebec, 8.6% in BC, 8.3% in Nova Scotia and 9.5% in PEI—building on 2020's solid gains. The outlook for the Prairie Provinces remains comparatively weaker. The economic challenges facing the region will continue to weigh on prices though we expect an increase in Alberta (0.9%) after nearly five years of decline. Newfoundland and Labrador is the only province for which we forecast prices to drop in 2021 (-0.4%)—for the sixth year in a row. It's important to note the upswing in property values in BC, Ontario and Quebec isn't just a big-market story. The pandemic has heated up prices in smaller markets too. In fact, we could see stronger gains in smaller markets than in core urban areas because downtown condo prices are likely to stay flat through much of 2021.

Home prices to sustain solid momentum in 2021

Annual % change in the aggregate benchmark price for Canada



Source: RPS, RBC Economics

Prices to rise in all but one province

Annual % change in aggregate benchmark price



Source: RPS, RBC Economics

## Buyers will keep bidding up prices because inventories are scarce...

Low available supply is the reason property values will continue to go up. Strong demand pre-pandemic and the historic market rally since summer have cleaned up inventories in many parts of the country. Relative to the 10-year average, active listings had plummeted between 50% and 61% in Ontario, Quebec and most of Atlantic Canada, and 29% in BC by the late stages of 2020. And that's despite a surge in downtown condo listings since spring in Canada's largest cities. With so few options to choose from (outside downtown condos), buyers will continue to compete fiercely. Buyers in the Prairie Provinces, and Newfoundland and Labrador, however, will feel less pressure to outbid each other given supply isn't quite as scarce in these markets.

## ...and sellers are calling the shots

Viewed from another angle, sellers enter 2021 holding a very strong hand when setting prices in most of Canada. We see this continuing during most of 2021. We expect provincial sales-to-new listings ratios—a reliable gauge of price pressure—to generally stay above the threshold (0.60) where sellers have historically yielded more pricing power. In several cases (including BC, Ontario and Quebec), ratios are well above the threshold, providing plenty of buffer against demand-supply conditions flipping in favour of buyers.

## Supercharged demand to drive up home resales to a second-straight record

Despite the pandemic virtually stalling activity last spring, Canada's housing market likely had its strongest year ever in 2020. We estimate home resales rose nearly 13% to 552,300 units nationwide, surpassing the previous record of 539,100 units set in 2016. The spring setback was more than made up by surging activity in the summer and fall. We project resales to be even stronger overall in 2021, reaching 588,300 units. Historically low interest rates, changing housing needs, high household savings and improving consumer confidence will keep demand supercharged.

## Cooling signs will emerge...eventually

The strong annual tally will mask a gradual cooling in the market through the year, however. We believe the lofty levels of activity attained at the end of 2020—nearing 700,000 units on an annualized basis in the fourth quarter—won't be sustained, and some moderation will set in over the course of the year. We expect low supply to become a growing constraint, pandemic-induced market churn (resulting from changes in housing needs) to wane, and a slight rise in longer-term interest rates and material erosion of affordability to cool demand by a few degrees. Low immigration

### Home-for-sale inventories are historically low

November 2020 active listings relative to 10-year average, in %



Source: Canadian Real Estate Association, RBC Economics

### Sellers are generally in command

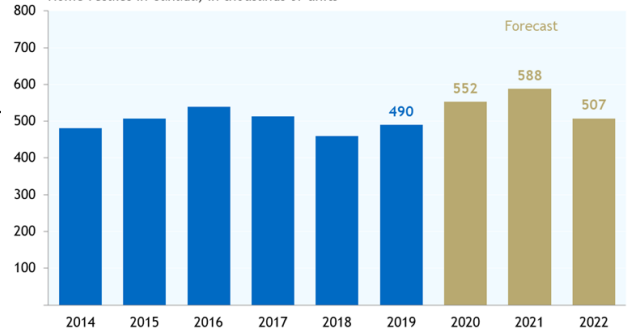
Sales-to-new listings ratio, November 2020



Source: Canadian Real Estate Association, RBC Economics

### Annual sales to reach a new high in 2021

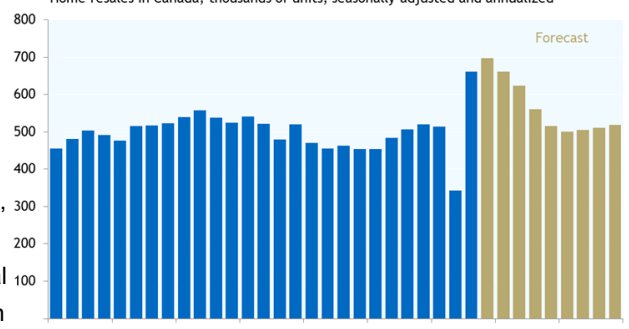
Home resales in Canada, in thousands of units



Source: Canadian Real Estate Association, RBC Economics

### The pace will slow over the course of the coming year

Home resales in Canada, thousands of units, seasonally adjusted and annualized



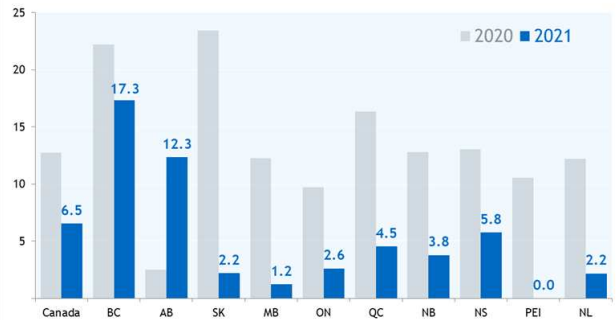
Source: Canadian Real Estate Association, RBC Economics

levels could also play a role. Our view is these factors will rein in resales to something closer to 515,000 units by the end of the year—still solid but down from the stratosphere.

### All provincial markets but one (PEI) to stay in growth mode

Home resales rose in all provincial markets in 2020—the last time this happened was in 2004. We expect a near-repeat performance in 2021 with only PEI bucking the trend (with resales remaining unchanged close to a record level). Still, rates of increase will generally slow. We project activity in BC and Alberta to grow the most, at 17% and 12%, respectively. In both cases, this will reflect further recovery of ground lost years earlier. These provincial markets had slumped prior to 2020. Forecasted gains are more modest for most other provinces, ranging from 1.2% in Manitoba to 5.8% in Nova Scotia. We believe supply constraints will be a particular issue holding back the pace in Central Canada and most of the Atlantic Provinces.

Activity to grow in almost all provinces  
Annual % change in home resales

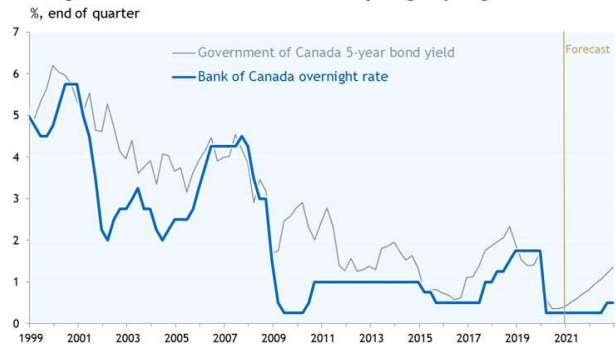


Source: Canadian Real Estate Association, RBC Economics

### High sensitivity to interest rates poses a potential risk...

The decline in interest rates since last spring gave a sizable break to buyers by lowering debt service costs. This has undoubtedly attracted more buyers into the market. We expect interest rates to stay low though we see long-term rates starting to creep slightly higher this year. It's important to remember that when rates are at rock-bottom levels like they are today, it doesn't take much of an increase to jack up debt service costs. So the slightest rate increase could compel many buyers to exit. Any sudden, larger increase would pose a risk to the market.

Longer-term interest rates to creep slightly higher

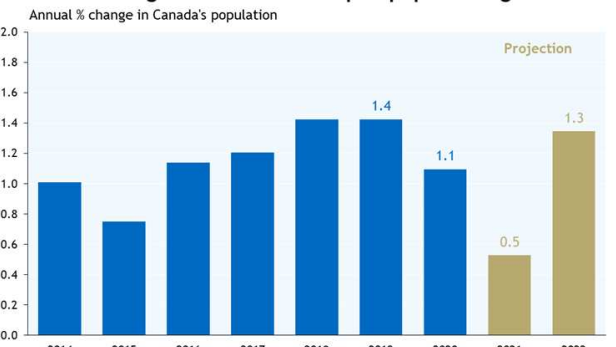


Source: Bank of Canada, RBC Economics

### ...and so do low immigration levels

There are several other risks to be mindful of. The pandemic is obviously a top one, having the potential to severely disrupt activity. The good news is mass immunization is in sight, which should mitigate some of that risk. Slumping immigration, if it continues, could sap housing demand. To date, the plunge in immigration has primarily affected the rental and, to a lesser extent, condo markets in Canada's largest cities though the impact could spread to other housing categories and markets. Strong immigration has been a huge source of housing demand over the past decade. Finally, should signs of market overheating emerge, this could prompt policymakers to intervene by tightening rules or imposing new restrictions in order to cool things down.

Lower immigration to cause a dip in population growth



Source: Statistics Canada, RBC Economics

Home resales forecast (units)										
	2013	2014	2015	2016	2017	2018	2019	2020f	2021f	2022f
Canada*	455,000	481,200	506,700	539,100	513,900	459,600	489,900	552,300	588,300	507,400
	<i>0.6</i>	<i>5.8</i>	<i>5.3</i>	<i>6.4</i>	<i>-4.7</i>	<i>-10.6</i>	<i>6.6</i>	<i>12.7</i>	<i>6.5</i>	<i>-13.8</i>
British Columbia	73,000	84,200	102,700	112,400	104,000	78,500	77,400	94,600	111,000	88,500
	<i>7.7</i>	<i>15.3</i>	<i>22.0</i>	<i>9.4</i>	<i>-7.5</i>	<i>-24.5</i>	<i>-1.4</i>	<i>22.2</i>	<i>17.3</i>	<i>-20.3</i>
Alberta	66,900	74,500	58,700	54,300	56,300	52,100	52,200	53,500	60,100	54,300
	<i>8.4</i>	<i>11.4</i>	<i>-21.2</i>	<i>-7.5</i>	<i>3.7</i>	<i>-7.5</i>	<i>0.2</i>	<i>2.5</i>	<i>12.3</i>	<i>-9.7</i>
Saskatchewan	13,800	14,200	12,700	12,000	11,700	10,900	11,100	13,700	14,000	11,500
	<i>-1.4</i>	<i>2.9</i>	<i>-10.6</i>	<i>-5.5</i>	<i>-2.5</i>	<i>-6.8</i>	<i>1.8</i>	<i>23.4</i>	<i>2.2</i>	<i>-17.9</i>
Manitoba	13,700	13,700	14,000	14,500	14,400	13,500	14,700	16,500	16,700	14,800
	<i>-0.7</i>	<i>0.0</i>	<i>2.2</i>	<i>3.6</i>	<i>-0.7</i>	<i>-6.3</i>	<i>8.9</i>	<i>12.2</i>	<i>1.2</i>	<i>-11.4</i>
Ontario	194,400	202,400	221,800	243,000	219,400	192,200	209,500	229,800	235,800	214,600
	<i>0.3</i>	<i>4.1</i>	<i>9.6</i>	<i>9.6</i>	<i>-9.7</i>	<i>-12.4</i>	<i>9.0</i>	<i>9.7</i>	<i>2.6</i>	<i>-9.0</i>
Quebec	71,200	70,600	74,100	78,100	82,500	86,500	96,600	112,400	117,500	95,000
	<i>-8.0</i>	<i>-0.8</i>	<i>5.0</i>	<i>5.4</i>	<i>5.6</i>	<i>4.8</i>	<i>11.7</i>	<i>16.4</i>	<i>4.5</i>	<i>-19.1</i>
New Brunswick	6,600	6,600	6,900	7,800	8,200	8,300	9,400	10,600	11,000	9,600
	<i>-1.5</i>	<i>0.0</i>	<i>4.5</i>	<i>13.0</i>	<i>5.1</i>	<i>1.2</i>	<i>13.3</i>	<i>12.8</i>	<i>3.8</i>	<i>-12.7</i>
Nova Scotia	9,200	9,100	9,400	10,100	10,600	11,100	12,300	13,900	14,700	12,500
	<i>-12.4</i>	<i>-1.1</i>	<i>3.3</i>	<i>7.4</i>	<i>5.0</i>	<i>4.7</i>	<i>10.8</i>	<i>13.0</i>	<i>5.8</i>	<i>-15.0</i>
Prince Edward Island	1,500	1,400	1,700	2,100	2,200	2,100	1,900	2,100	2,100	1,900
	<i>0.0</i>	<i>-6.7</i>	<i>21.4</i>	<i>23.5</i>	<i>4.8</i>	<i>-4.5</i>	<i>-9.5</i>	<i>10.5</i>	<i>0.0</i>	<i>-9.5</i>
Newfoundland & Labrador	4,300	4,100	4,200	4,200	3,900	3,700	4,100	4,600	4,700	3,900
	<i>-6.5</i>	<i>-4.7</i>	<i>2.4</i>	<i>0.0</i>	<i>-7.1</i>	<i>-5.1</i>	<i>10.8</i>	<i>12.2</i>	<i>2.2</i>	<i>-17.0</i>

\* Includes sales in the Territories.

Annual percent changes are in italics.

Source: Canadian Real Estate Association, RBC Economics

Home price forecast										
Aggregate price	2013	2014	2015	2016	2017	2018	2019	2020f	2021f	2022f
Canada	400,400	419,500	443,800	492,600	546,400	558,600	568,600	617,200	669,000	695,000
	<i>2.4</i>	<i>4.8</i>	<i>5.8</i>	<i>11.0</i>	<i>10.9</i>	<i>2.2</i>	<i>1.8</i>	<i>8.5</i>	<i>8.4</i>	<i>3.9</i>
British Columbia	536,300	565,600	610,000	717,600	775,300	816,600	789,500	849,100	922,500	949,600
	<i>-0.6</i>	<i>5.5</i>	<i>7.9</i>	<i>17.6</i>	<i>8.0</i>	<i>5.3</i>	<i>-3.3</i>	<i>7.5</i>	<i>8.6</i>	<i>2.9</i>
Alberta	405,600	426,900	432,800	425,900	429,700	428,600	421,800	420,100	423,900	421,900
	<i>3.7</i>	<i>5.3</i>	<i>1.4</i>	<i>-1.6</i>	<i>0.9</i>	<i>-0.3</i>	<i>-1.6</i>	<i>-0.4</i>	<i>0.9</i>	<i>-0.5</i>
Saskatchewan	326,700	332,500	332,600	332,500	329,700	326,300	322,200	322,700	323,000	320,500
	<i>4.1</i>	<i>1.8</i>	<i>0.0</i>	<i>0.0</i>	<i>-0.8</i>	<i>-1.0</i>	<i>-1.3</i>	<i>0.2</i>	<i>0.1</i>	<i>-0.8</i>
Manitoba	271,900	279,900	282,900	288,700	297,500	300,200	306,200	315,200	328,900	334,400
	<i>3.4</i>	<i>2.9</i>	<i>1.1</i>	<i>2.1</i>	<i>3.0</i>	<i>0.9</i>	<i>2.0</i>	<i>2.9</i>	<i>4.3</i>	<i>1.7</i>
Ontario	402,600	423,800	455,000	515,300	600,300	606,800	632,000	700,700	767,900	804,900
	<i>3.7</i>	<i>5.3</i>	<i>7.4</i>	<i>13.3</i>	<i>16.5</i>	<i>1.1</i>	<i>4.2</i>	<i>10.9</i>	<i>9.6</i>	<i>4.8</i>
Quebec	296,100	301,000	305,600	315,700	327,400	340,900	361,900	393,700	429,300	452,100
	<i>1.1</i>	<i>1.7</i>	<i>1.5</i>	<i>3.3</i>	<i>3.7</i>	<i>4.1</i>	<i>6.2</i>	<i>8.8</i>	<i>9.0</i>	<i>5.3</i>
New Brunswick	193,100	198,300	199,900	208,200	208,300	215,000	218,200	220,800	227,900	231,500
	<i>0.0</i>	<i>2.7</i>	<i>0.8</i>	<i>4.2</i>	<i>0.0</i>	<i>3.2</i>	<i>1.5</i>	<i>1.2</i>	<i>3.2</i>	<i>1.6</i>
Nova Scotia	250,100	253,300	256,100	261,800	272,400	275,900	283,800	302,600	327,800	338,300
	<i>2.0</i>	<i>1.3</i>	<i>1.1</i>	<i>2.2</i>	<i>4.0</i>	<i>1.3</i>	<i>2.9</i>	<i>6.6</i>	<i>8.3</i>	<i>3.2</i>
Prince Edward Island	198,300	197,700	203,800	214,900	240,900	266,400	277,200	307,500	336,600	352,500
	<i>-1.6</i>	<i>-0.3</i>	<i>3.1</i>	<i>5.4</i>	<i>12.1</i>	<i>10.6</i>	<i>4.1</i>	<i>10.9</i>	<i>9.5</i>	<i>4.7</i>
Newfoundland & Labrador	288,000	295,500	299,200	298,700	295,100	285,100	273,200	269,800	268,800	268,000
	<i>6.5</i>	<i>2.6</i>	<i>1.3</i>	<i>-0.2</i>	<i>-1.2</i>	<i>-3.4</i>	<i>-4.2</i>	<i>-1.2</i>	<i>-0.4</i>	<i>-0.3</i>

Annual percent changes are in italics.

Source: RPS, Royal LePage, Statistics Canada, RBC Economics

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