

**CURRENT ANALYSIS**

January 16, 2012

**Canada's housing market posted moderate gains in 2011**

The December home resales statistics published this morning by the Canadian Real Estate Association (CREA) showed that Canada's housing market continued to advance at a modest pace at the end of 2011. Home resales rose for the fourth consecutive month in December, climbing 1.8% from November to a healthy tally of 476,900 units (seasonally adjusted and annualized). With the further reversal of part of the hefty property appreciation registered late in 2010 and early in 2011 in the Vancouver and, to a lesser extent, Toronto markets, the average price of homes sold on the MLS system in Canada fell for sixth time in eight months. The national average price (seasonally adjusted) eased 0.9% in December on a month-to-month basis. The year-over-year increase moderated to just 0.9% (using unadjusted figures), thereby representing the smallest such gain since October 2010. Excluding Vancouver and Toronto, the national average home price rose by 0.8% from November to December and 3.7% from December 2010.

For 2011 as a whole, home resales totalled 457,700 units in Canada, up 2.2% from 446,900 units in 2010. This was slightly below the 10-year average of 460,200 units, which indicates little in the way of market activity running either too fast or too slow. Overall, the Canadian market remained balanced with the sales-to-new listings ratio at 0.53 – close to the middle of the 0.40-0.60 range within which neither buyers nor sellers have the upper hand – and the number of months' supply essentially remaining unchanged at 6.1. In December, the number of months' supply edged slightly lower to 5.8 from 5.9 in November. Such balanced market conditions in 2011 sustained moderate price increases with the annual average national price rising 6.8% in 2011, the same rate of increase as in 2010. Excluding Vancouver and Toronto, properties sold on the MLS system in all other markets saw modest price gains of 4.1% in 2011, which was less than the long-term average of 5.3%.

Thanks to a spectacular run-up in a number of high-end neighborhoods in late 2010 and early 2011, Vancouver home prices posted the most significant increase among Canada's largest urban centres for the second straight year in 2011, rising by 14.3%, following an even stronger gain of 15.5% in 2010. Well behind, last year, was Toronto with an annual price increase of 7.6%, just slightly ahead of Regina at 7.3%. All other major urban centres showed smaller rates of increase than the national average. Edmonton prices fell for the third time in the last four years.

**Home resales in Canada**

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

**Annual change (%) 2011**

	Average price	Home resales
<b>Vancouver</b>	14.3%	5.8%
<b>Toronto</b>	7.6%	4.0%
<b>Regina</b>	7.3%	8.9%
<b>Total Canada</b>	6.8%	2.2%
<b>Winnipeg</b>	6.1%	6.3%
<b>Ottawa</b>	4.7%	-0.2%
<b>Saskatoon</b>	4.6%	13.1%
<b>Montreal*</b>	3.5%	-4.8%
<b>Halifax</b>	2.7%	2.9%
<b>Calgary</b>	1.1%	7.0%
<b>Edmonton</b>	-0.7%	3.4%

\*based on first 11 months

Source: Canadian Real Estate Association, RBC Economics Research

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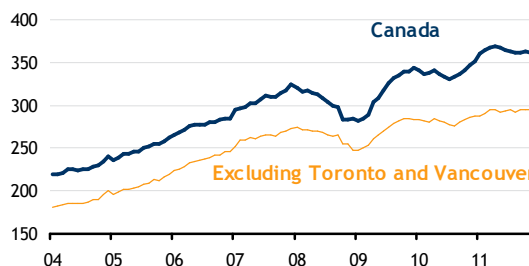
Looking at recent monthly trends, we note that the average home price in Vancouver has been softening since July last year, reflecting the reversal of some of the earlier strong gains. This softening trend drove the Vancouver average below its year-ago level in December for the first time since June 2009. In Toronto, the average price has stabilized since the start of summer. In December, the year-over-year rate of increase moderated to 4.3%, also the smallest advance since June 2009. Nationally, increases in average home prices sold on the MLS system have shown a slightly declining trend since reaching an all-time high in April last year. Excluding Vancouver and Toronto, however, the trend has been mostly flat since March.

The picture painted by the latest statistics on Canadian housing continues to be consistent with an overall market that is showing moderation on nearly all fronts. Home resales grew a little stronger (2.2%) than we expected (1.4%) last year but not dangerously so. At the end of 2011, the national and the vast majority of local markets remained balanced. This is keeping price gains on a moderating path. The earlier troubling surge in prices in Vancouver is so far unwinding in an orderly fashion – although very strained affordability in this market will maintain intense stress on local homebuyers in the near term.

We expect that widespread moderation will be sustained in 2012. Our latest projections published in November call for minimal growth in both home resales (0.4%) and prices (0.5%) overall in Canada, with strength in markets such as Alberta and Saskatchewan more than offsetting some softening in British Columbia.

### Average home prices in Canada

Thousand dollars, S.A.



Source: CREA, RBC Economics Research

### Average home prices in Vancouver

Thousand dollars, S.A.



Source: CREA, RBC Economics Research

### Average home prices in Toronto

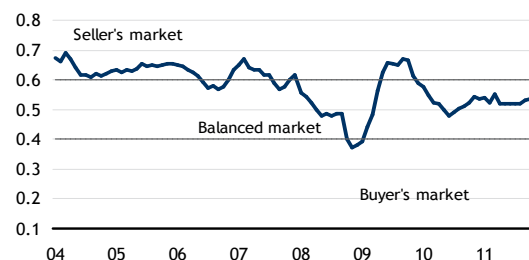
Thousand dollars, S.A.



Source: CREA, RBC Economics Research

### Sales-to-new listings ratio in Canada

S.A., monthly



Source: CREA, RBC Economics Research

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