New OSFI Stress Test Set to Limit National Home Price Appreciation to 4.9% in 2018

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Impact of new stress test expected to be contained to first half of 2018 for most major markets

Still risk of high price appreciation in Greater Toronto Area and Greater Vancouver as chance of market correction fades

Compounding policies could have unintended consequences for struggling housing markets

TORONTO, December 13, 2017 – According to the Royal LePage Market Survey Forecast released today, the Royal LePage House Price Composite, which measures home prices in 53 key Canadian cities, is expected **to increase 4.9 per cent** by the end of 2018 to **$661,919**, in the face of a series of measures aimed at affordability challenges in Greater Vancouver and the Greater Toronto Area.

One of the most significant regulatory interventions in the housing industry in years is the incoming Office of the Superintendent of Financial Institutions (OSFI) mortgage financing stress test, which will take effect on January 1, 2018. The stress test targets existing and prospective homeowners applying for a mortgage, requiring them to meet stricter criteria when seeking new financing.

With a large number of existing homeowners potentially failing the test when refinancing next year, a temporary reduction in consumer confidence may further stagnate price growth as potential buyers and sellers take a 'wait and see' approach. Moreover, some potential move-up buyers will likely delay listing their homes as they will not be able to access sufficient financing for their desired next purchase. With further diminished affordability, it is likely that demand for entry-level properties will surge. In most urban centres, this will be most evident in the condominium segment.

"It is prudent that policy makers introduce measures that help protect the housing market from runaway price inflation," said Phil Soper, president and CEO, Royal LePage, "However, natural supply and demand forces will always triumph over regulatory tinkering. Attempting to use public policy to steer property prices in huge, rapidly growing cities like Toronto and Vancouver is like a tugboat trying to turn an ocean liner. Consistent, measured policy can have a positive impact. Just don't try to turn the market on a dime or you risk sinking the ship."

"Insufficient housing supply in Canada's largest cities will begin to drive significant price increases to higher than normal levels once the market adjusts to the new stress test," continued Soper. "Aggressive home price inflation is still more of a threat today than the risk of a market crash in Toronto or Vancouver. On the other side of the coin, regions where demand is soft and already struggling to absorb the supply of homes for sale may have difficulty adjusting to these measures."

Decreasing, or already low, inventory levels are expected to continue to define market characteristics of many large urban centres including the Greater Toronto Area, Greater Vancouver, Ottawa and Montreal. Further adding to the already bloated housing demand backlog, British Columbia and Ontario both experienced a surge in interprovincial migration in 2017, putting increased pressure on Greater Vancouver and the Greater Toronto Area housing markets. Demand from immigration, alongside demand from Peak Millennials[1] who are increasingly becoming of homebuying age, will continue to outpace supply.

"Royal LePage's research into Peak Millennials[2] shows that younger Canadians desire to own their own homes with the same conviction as their parents before them," said Soper. "Eighty-seven per cent see real estate as a good financial investment. The tight rental market is reflective of their dreams sitting on hold while they save for a downpayment. Of course there will be those who are priced out of a market altogether. They will continue renting and this will drive demand for investor properties."

According to a recent Royal LePage Advisor Survey[3] on rental demand, 76 per cent of Royal LePage agents who offer rental services in the Greater Toronto Area saw a year-over-year increase in multiple offers and 68 per cent of those respondents cited affordability as a barrier to homeownership as the number one factor driving rental demand. In Greater Vancouver, 59 per cent of respondents servicing the Vancouver area saw a year-over-year increase in multiple offers for rentals. As a result, the pipeline of potential homebuyers providing a market price floor is growing and this growth trend is expected to continue through 2018.

Canada's economy is expected to expand by 2.1 per cent in 2018, with all provinces, with the exception of Newfoundland, expected to see growth. Economic growth is an important driver of healthy housing markets.

"Most Canadians know how important the resource sector is to our economy but fewer understand just how important the real estate industry is to Canada," said Soper. "In 2016, 13 per cent of the country's GDP was driven by real estate. In British Columbia, that number was closer to 18 per cent."

"When people are confident about their jobs and optimistic about the health of their country and their city, they will invest in a home," Soper concluded. "At projected levels of demand, Canadian housing is poised for growth for years to come."

Regional Pricing Forecasts (Listed by population size)

Greater Toronto Area

Home prices in the Greater Toronto Area are expected to **increase 6.8 per cent** in 2018, rising to an aggregate[4] price of **$901,392**. This will largely be driven by price appreciation in the condominium market as demand for entry-level properties is expected to continue to surge. The Greater Toronto Area's thriving economy and growing population has been supportive of an expanding housing market and this is expected to continue throughout 2018.

As a result of the incoming OSFI stress test, sales for detached properties are expected to soften in the first half of the year as both buyers and sellers adjust their price expectations. However, sales volumes for the full year are expected to remain at a similar pace as 2017.

"Relative to recent years, 2018 is expected to be a good year for buyers and this is a continuation from what we are currently seeing in the market today," said Shawn Zigelstein, sales representative, Royal LePage Your Community Realty. "While the condo market should continue to see price growth from high demand, buyers looking at detached properties in the first quarter will be able to ask for conditions, have a much greater selection and should be competing against fewer multiple offers."

Greater Montreal Area

Home prices in the Greater Montreal Area are expected **to increase 5.5 per cent** in 2018, rising to an aggregate price of **$408,285**. Among the economic factors supporting the Montreal real estate market momentum is ongoing employment growth seen across the region. In November, the province reached its lowest unemployment rate since January 1976, at 5.4 per cent, while Montreal recorded a 6.6 per cent rate during the same period. According to the Conference Board's Consumer Confidence Index for Quebec[5], the proportion of Quebecers who feel that it is a good time to make a major purchase, such as a property, increased in November to 45.6 per cent, an unprecedented rate in more than 10 years.

Purchases made by foreign buyers in high-end neighbourhoods such as downtown, Westmount and Ville Mont-Royal are expected to continue. The strong local economy and relative affordability are credited for driving consumer demand from this demographic.

"The economic health of Montreal continues to positively affect real estate transactions in the area," says Dominic St-Pierre, senior director, Royal LePage, for the Quebec region. "We are confident that the market will remain stable and strong within the next year. Our forecast takes into account that the upcoming OSFI stress test, as well as potential interest rates hikes, may cool down the housing market during the first half of 2018."

Greater Vancouver

Home prices in Greater Vancouver are expected to **increase 5.2 per cent** in 2018, rising to an aggregate price of **$1,353,924** as low supply continues to put upward pressure on the housing market. Further enhancing the housing market is British Columbia's economy, which is poised to be a top performer among the provinces in 2018. One potential risk to the region's housing market is further interest rate hikes as home prices are substantially higher in this region when compared to other Canadian markets. Interest rate hikes generally put upward pressure on the Canadian dollar, which also stifles interest from foreign buyers.

A trend that is expected to continue to strain the housing market is the hesitation from homeowners to put their properties on the market in fear that they will not be able to find another property. This will be amplified by the incoming OSFI stress test as some potential move-up buyers may not qualify for financing a new property. This lack of movement is expected to further constrain the supply of entry-level properties.

"We are watching how the new OSFI stress test will impact the Greater Vancouver market," said Randy Ryalls, general manager, Royal LePage Sterling Realty. "Low inventory will continue to put upward pressure on prices. However, with the introduction of the stress test, as well as other factors such as potential interest rate hikes, price growth will likely be limited to mid-single digits."

Ottawa

Home prices in Ottawa are forecast to **increase 3.2 per cent** in 2018, rising to an aggregate price of **$458,208**, reflecting the strong economic growth anticipated in the region through next year. Currently, housing inventory in the Ottawa market is very low and this trend is expected to continue throughout 2018, putting upward pressure on home prices.

As demand in the region is exceptionally high, the incoming OSFI stress test is expected to be quickly absorbed, limiting impacts on both home sales and prices.

“Ottawa is known for its steady growth and we expect consumer confidence to remain high throughout 2018,” said Hanna Browne, broker, Royal LePage Team Realty. “Most buyers who migrate to Ottawa have found employment locally prior to arriving, however, we are still seeing a surge of demand from buyers employed in Toronto who have the ability to work remotely full or part-time.”

Calgary

Home prices in Calgary are forecast to **increase 2.3 per cent** in 2018, rising to an aggregate price of **$494,109** as the region further emerges from recovery. The region’s housing market has been supported by stabilizing oil prices and improving employment rates. While it could take several years for the economy to improve to pre-downturn levels, Alberta is poised to be one of the fastest growing economies in 2018. In turn, this will likely further improve consumer confidence. While the energy sector will continue to be the most important factor influencing the housing market, the region has seen growth in non-energy sectors helping to mitigate risk through a more diversified economy.

Though the incoming OSFI stress test is expected to slow sales at the beginning of the year, buyers and sellers are expected to adjust, and the delayed market could result in brisker sales beginning in late spring, potentially finishing strong at the end of the year.

“Continued strong competition for homes priced between $400,000 and $500,000, coupled with the incoming OSFI stress test, will likely push first-time buyers into the condo segment where they have ample selection at affordable prices,” said Corinne Lyall, broker/owner, Royal LePage Benchmark. “One positive impact of the measure may be that it will improve the health of the condominium market.”

Edmonton

The aggregate home price in Edmonton is expected to **decrease 1.5 per cent** in 2018 and end the year at **$382,180.** While Edmonton’s economy has stabilized, the region has not seen a significant improvement in employment, which is needed to lift home prices. On a positive note, the Conference Board of Canada is predicting Edmonton to show modest but sustainable GDP growth of 2.2 per cent in 2018.[6]

Although the impact of the OSFI stress tests is expected to be less pronounced compared to previous measures targeting first-time buyers, sales in the beginning of the year will be slower as move-up buyers who do not meet new financing criteria temporarily move to the sidelines. However, sales for the full year are expected to be similar or slightly higher compared to 2017 levels.

“The best advice I can give a seller in Edmonton is to make sure your pricing is very accurate,” said Tom Shearer, broker and owner, Royal LePage Noralta. “A trend we will continue to see in 2018 as we remain in a buyer’s market, is heightened price sensitivity. Buyers expect to negotiate within 2 to 3 per cent, and if you are outside that range they just move on.”

Winnipeg

Home prices in Winnipeg are expected to **increase 4.0 per cent** in 2018, rising to an aggregate price of **$315,120**. The region’s economy has benefitted from an increase in population and a low unemployment rate, which are expected to continue to put upward pressure on home prices and help maintain strong sales activity consistent with 2017 levels.

Strong demand for housing and low inventory is expected to continue through 2018, mitigating the dampening effect of the incoming OSFI stress test and limiting its impact to the first quarter.

“New regulations often create a ‘wait-and-see’ approach as buyers and sellers try to determine the long term impact,” said Michael Froese, managing partner, Royal LePage Prime Real Estate. “The strength of our economy and housing affordability are much more significant in determining the health of our real estate market than the expected impact from the incoming OSFI stress test.”

Halifax

Home prices in Halifax are expected to **increase 2.5 per cent** in 2018, rising to an aggregate price of **$326,975**. The region’s economy has been expanding and the manufacturing sector, a key indicator for the region, is expected to continue growing through 2018. The region’s housing market has benefitted from both population and job growth. Inventory in the downtown core is expected to remain low and sales are expected to increase modestly by the end of 2018.

"We don't expect the incoming OSFI stress test to have a significant effect on Halifax's housing market. Homes are affordable and buyers rarely extend themselves," said Matt Honsberger, president, Royal LePage Atlantic. "Our economy is a good news story and we expect that it will be the biggest driver of price appreciation in 2018."

Regina

Home prices in Regina are expected to **increase 0.7 per cent** in 2018, rising to an aggregate price of **$329,289**. Employment from a modestly improving energy sector and international immigration is expected to put upward pressure on both home prices and sales. However, a net loss from interprovincial migration and a surplus of inventory will keep price appreciation at a modest pace. The region continues to be heavily reliant on potash and energy. Any improvement in either sector could lift home prices in 2018.

"The region is expected to remain a buyer's market throughout 2018. Home sellers need every available tool to properly market their home if they want to sell this coming year," said Mike Duggleby, broker and managing partner, Royal LePage Regina Realty. "The most important factor to get right is pricing. Buyers have enough selection that they won't consider a property that isn't already priced in a competitive range."

Royal LePage Market Survey Forecast

Region	**2017 Aggregate Home Price (Estimate)**	**2018 Aggregate Home Price (Forecast)**	**Year-over-Year (%)**
Canadian House Price Composite (53 Cities)	$631,000	$661,919	4.9%
Greater Toronto Area	$844,000	$901,392	6.8%
Greater Montreal Area	$387,000	$408,285	5.5%
Greater Vancouver	$1,287,000	$1,353,924	5.2%
Ottawa	$444,000	$458,208	3.2%
Calgary	$483,000	$494,109	2.3%
Edmonton	$388,000	$382,180	-1.5%
Winnipeg	$303,000	$315,120	4.0%
Halifax	$319,000	$326,975	2.5%
Regina	$327,000	$329,289	0.7%

Download Chart (.pdf)

About the Royal LePage Market Survey Forecast

The Royal LePage Market Survey Forecast provides year-over-year price expectations for Canada's nine largest markets. Housing values are based on the Royal LePage National House Price Composite, produced through the use of company data in addition to data and analytics from its sister company, RPS Real Property Solutions, the trusted source for residential real estate intelligence and analytics in Canada. Commentary on housing and forecast values are provided by Royal LePage residential real estate experts, based on their opinions and market knowledge.

About Royal LePage

Serving Canadians since 1913, Royal LePage is the country's leading provider of services to real estate brokerages, with a network of almost 18,000 real estate professionals in more than 600 locations nationwide. Royal LePage is the only Canadian real estate company to have its own charitable foundation, the Royal LePage Shelter Foundation, dedicated to supporting women's and children's shelters and educational programs aimed at ending domestic violence. Royal LePage is a Brookfield Real Estate Services Inc. company, a TSX-listed corporation trading under the symbol TSX:BRE.

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[1] The term "Peak Millennial" was first coined by U.S. economist, Dowell Myers to describe the largest cohort of millennials and their potential purchasing power (born between 1987 and 1998). For the purposes of homebuyer research, Royal LePage focuses on Peak Millennials who are 25 years of age and over. In 2017, the range of birth years is 1987-1993.

[2] The Royal LePage Peak Millennial Survey, released August 17, 2017. An online survey of 1,000 peak millennials (age 25-30), conducted between June 7 and June 14, 2017.

[3] Survey of Royal LePage agents who provide rental services in Greater Vancouver and the Greater Toronto Area. Conducted between November 29, 2017 and December 3, 2017.

[4] Aggregate prices are calculated using a weighted average of the median values of all housing types collected. Data is provided by RPS Real Property Solutions.

[5] Conference Board of Canada, Economic News, November 11, 2017.

[6] The Conference Board of Canada's Metropolitan Outlook: Autumn 2017, October 17, 2017