Real Estate News

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Natural Slowing of Home Price Appreciation Delayed in Ontario, Accelerated in the West

Steep oil price declines expected to impact key markets

Across the country, average home prices showed modest to healthy year-over-year gains in most markets in the fourth quarter of 2014, according to the Royal LePage House Price Survey and Market Survey Forecast recently released.

During the quarter, the average price of a home in Canada increased between 4.5 percent and 6.7 percent year-over-year. Nationally, the average price of detached bungalows rose 6.7 percent $406,218, while standard two-storey homes increased 6.0 percent to $443,379, and standard condominiums saw a 4.5 percent increase to $257,624. Against the backdrop of a decidedly mixed macroeconomic environment at home and abroad, Royal LePage expects home prices to increase moderately in 2015, forecasting a 2.9 percent national increase for the year ahead.

"For our 2015 forecast, we could not ignore the potential impact of the steep decline in the price of oil on housing markets across Canada," continued Soper. "In the immediate term we anticipate that the natural slowing of home price appreciation we called for in the third quarter of 2014 will be delayed in Central Canada and accelerated in the West by recent developments in the energy sector."

For the first half of 2015, Royal LePage expects a confluence of factors and the lower cost of oil to support continued positive price momentum in the Greater Toronto Area (GTA), which should experience the highest major market price increases. Ontario's strengthened export economy buttressed by a flourishing U.S. economy and lower Canadian dollar; improved labour market trends; and unsatisfied demand from countless homebuyers who lost out in 2014 GTA bidding wars are expected to carry the all-important 2015 spring market. Meanwhile in Atlantic Canada, buyers should continue to have the upper hand, with home prices across the region forecast to rise below general inflation.

Royal LePage notes that potential threats to the health of the Canadian housing market remain, including sharp increases in interest rates, further federal government intervention in the mortgage market or a serious stumble on America's road to full economic recovery, but these are all considered unlikely in 2015.

"Ultimately the biggest threat to the Canadian housing market is a decline in consumer confidence, which could result from worsened employment prospects or decreased purchasing power, be it real or perceived. In this light, we will be watching market developments closely in the regions most negatively impacted by oil price declines, such as Alberta, Saskatchewan and Newfoundland," concluded Soper.

A healthy and confident Ottawa housing market saw moderate gains in spite of supply continuing to outstrip demand. Detached bungalows and standard two-storey homes increased 2.2 percent year-over-year to $404,708 and 2.1 percent to $407,440, respectively. Standard condominiums saw a slight decline in price, dropping 0.6 percent to $258,817.

Homebuyers Undeterred by January Cold

Members of the Ottawa Real Estate Board (OREB) sold 627 residential properties in January 2015 compared with 587 in January 2014, an increase of 6.8 percent. There were 640 home sales in December 2014.

"The cold weather proved not to be a deterrent for buyers in January," said OREB's President. "Residential and Condo sales combined, contributed to an increase in sales this month, and we are right on par with the January average. Residential two-storey and bungalow properties had the highest concentration of buyers. In addition to residential and condominium sales, OREB members assisted clients with renting 183 units this month."

"This month has been a busy month for our Members. The number of residential and condo properties listed in January (2,018) more than doubled the amount of newly listed properties from December – a normal occurrence at the beginning of the year, in advance of the usual busy spring market.

"The possibility of interest rates approaching record lows will provide even more opportunity for homebuyers," he added. "The Ottawa resale market remains steady, and we look forward to a productive year ahead."

The average sale price of residential properties, including condominiums, sold in January in the Ottawa area was $348,617 an increase of 0.5 percent over January 2014. The average sale price for a condominium-class property was $250,406 a decrease of 5.8 percent over January 2014. The average sale price of a residential-class property was $370,442 an increase of 0.5 percent over January 2014.

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Canadian banks on brink of mortgage price war

Canada's major banks are heading into a renewed mortgage price war in the wake of the Bank of Canada's surprise decision to cut interest rates.

Mortgage brokers reported that Royal Bank of Canada recently dropped its five-year fixed rate for qualified borrowers to 2.84 percent. While smaller, non-bank lenders have started offering even cheaper rates, RBC's rate cut is likely a record for a major bank, said Drew Donaldson, executive vice-president of Safebridge Financial Group. The bank also slashed its posted 10-year fixed rate to 3.84 percent, the lowest nationally advertised rate in the country, said Robert McLister, founder of Ratespy.com.

RBC spokesman Wojtek Dabrowski said the bank continues to "review the impact of the Bank of Canada's rate decision," and that the company's "individual product lines continue to make pricing adjustments in the regular course of business to ensure we provide competitive rates in the marketplace."

Bank of Nova Scotia and National Bank of Canada have also cut fixed rates on broker-originated mortgages by 10 to 20 basis points in recent days. Toronto-Dominion Bank said it was dropping its posted 5-year fixed rate on Tuesday to 3.09 percent, down from 3.29 percent.

Mortgage officials said RBC was among the last of the major banks to introduce new rate specials. "National Bank already offers competitive rates over the mortgage rate spectrum as we moved early over the past weeks," bank spokesman Claude Breton said.

A battle in the mortgage market seemed inevitable given that Government of Canada bond yields have plummeted in recent weeks, falling 57 basis points in the past month to historic lows. Brokers had predicted that falling bond yields were almost certain to drive down the fixed-rate mortgage pricing ahead of the competitive spring housing market even as banks have largely kept their prime rates, which govern variable-rate mortgages along with other types of loans, unchanged. All the major banks will soon be forced to follow the Bank of Canada and cut their prime rates 25 basis points to 2.75 percent, Mr. Donaldson said. "We expect more cuts to come from all lenders," he said.

Even ahead of the Bank of Canada's recent unexpected rate cut, the country's major banks already seemed poised for a new round of rate cuts this year. Earlier this month, Bank of Montreal chief executive officer Bill Downe told an industry conference the bank was expecting to "again have a fresh offer that is appealing to customers" in the spring. The bank drew the ire of former finance minister Jim Flaherty in 2013 after it dropped its five-year fixed mortgage rate to 2.99 percent in what Mr. Flaherty called a "race to the bottom."

The renewed price war is raising concerns that the central bank's rate cut will add fuel to the country's overheated housing market even as Canadians struggle under the burden of rising household debt. Canadian Imperial Bank of Commerce deputy chief economist Benjamin Tal warned last week that falling mortgage rates could lead to "a monstrous spring in the real estate market."

Others argue that low rates may not be enough to kick start a housing market that had already begun to slow toward the end of this year as oil prices plunged. Even as they predicted that Canada's central bank will cut interest rates a second time later this year, TD economists said Monday they expect Canada's real estate market to fare poorly this year as cheap crude and sky-high house prices in major cities are making it difficult for new buyers to afford to jump into the market despite low mortgage rates. "The housing market is … projected to be a drag on growth, with changes in existing home sales and prices, as well as housing starts, forecast to tilt into negative territory," the bank said.