

Drop in home sales may be sign of peak

Garry Marr, Financial Post ·

Existing home sales dropped sharply in Canada's two most expensive markets, a further indication that the real estate market may have peaked.

The Toronto Real Estate Board said sales in June were down 23% from a year ago, leaving activity for the quarter up 1% from the same period a year earlier.

“We experienced a record number of existing home sales during the first half of 2010 but these sales were weighted more towards the beginning of the year, said Bill Johnston, president of TREB.

“The pace of home sales has moderated from record levels over the past two months with the prospect of higher mortgage rates.”

In addition to the fear of higher mortgage rates, the housing market was impacted earlier in the year by new mortgage rules that made it tougher to borrow.

The real estate industry has said many customers simply pushed forward their purchase to beat the new rules, predicting slower sales through the spring.

The industry is also now dealing with the impact of the harmonized sales tax, which was introduced in British Columbia and Ontario on July 1. Consumers trying to beat that tax — which will be newly applied to services such as real estate commissions — are said to have pushed their purchases forward, which will deprive the summer and fall of a number of sales.

Vancouver's market is also feeling the brunt of the new real estate reality. Sales in Canada's most expensive market were off 30.2% in June from a year ago, the Real Estate Board of Greater Vancouver said earlier this week. President Jake Moldowan noted June 2010 sales are still up 22.6% from 2008 recession levels.

The slowing market appears to be a phenomenon right across the country with Calgary also reporting last week June sales were off about 42% from a year ago. June sales were 16% from May alone.

So far, the drop in demand has not hit prices dramatically, but coupled with increased supply, the double-digit year-over-year price increases we saw for most of 2010 have ended. The average sale price of a home in Toronto last month was \$435,034, an 8% increase from a year earlier.

“With more to choose from in the second quarter, many home buyers have been making less-aggressive offers. This has resulted in less upward pressure in the average selling price,” said Jason Mercer, senior manager of market analysis for TREB, who said price increases will remain in single-digit territory for the rest of 2010.

New listings continue to put pressure on the Toronto market. New listings were up 13% in June from a year ago while total active listings climbed 28% during the same period.

In Vancouver, the total number of properties for sale is up 32% from a year ago. Prices in Vancouver were up 11.8% from a year ago with the board’s housing price index benchmark price climbing to \$580,237 from \$518,855. In Calgary, the average price of a home sold in June was \$483,240, an increase of 8% from a year earlier.

The existing home market may get a break from the fact it looks like builders are ramping down on construction. Statistics Canada said the value of building permits applied for in May was off 10.8% from a month earlier. Housing permits were off 4.4% from a month earlier.

“If there is hope for house prices in Canada, it lies in curtailing supply. That’s where any room for optimism lies in an otherwise bleak report that displayed widespread losses in value and volume terms within both the non-residential and residential categories,” said Derek Holt, an economist with Bank of Nova Scotia.