READING BETWEEN THE LINES

In mid-November the Royal Bank of Canada issued its housing forecast for the rest of this year and 2014.

"Recent market developments have not altered our views for 2014," the report said. "We continue to project resale activity to remain largely static overall next year, although the in-year pattern is likely to show some cooling in the latter part of the year as interest rates gradually rise."

Brokers, of course, have their own opinions. Following is principle broker and partner at the Mortgage Centre, MOS MortgageOne Solutions, the take of Paul Mangion.

1. I think home prices will stay fairly flat in most parts of the GTA with a few pockets doing better than 2% and certain areas actually experiencing declining values due to high inventory levels. Overall price gains will be around 1 to 2%. I believe rates will inch higher which will put pressure on any price gains.

2. I think the condo market in the GTA will experience a modest decline in sale prices with the demand for condo rentals preventing many people from being forced to sell at lower prices, which will help prevent any large declines.

3. I agree the bank of Canada will keep the bank of Canada rate unchanged for 2014 and probably 2015 but like always the statements of rates going up will probably help bring buyers into the market in the 2nd half of 2014 but not enough to see a year-over-year improvement.

4. Overall, I see a very bleak picture for the mortgage and real estate industry in 2014 and with increased competition for fewer customers you will see many agents leave the market, which will be positive as a whole for the industry.

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Commentary

1. All considered, CREA's report this morning is broadly consistent with our expectation that home resales will total slightly more 453,000 units in Canada in 2013, virtually unchanged from 2012. This forecast assumes that the softening of activity that we saw in October will be sustained in the coming months as we believe that the payback from the sales that were brought forward in anticipation of higher mortgage rates may have further to run.

Home prices appear to be tracking slightly higher than we expected, however, although the latest trend in the composite MLS HPI suggest only minor upside to our forecast gain of 2.3% for home prices overall in Canada in 2013. Some lagging effect on prices from the earlier tightening of demand-supply conditions in markets such as Toronto, Vancouver and Calgary likely will keep home prices on a slightly accelerating path in the near term, thereby possibly lifting the full-year 2013 rate of increase closer to 3.0% – still highly manageable for the market.

Recent market developments have not altered our views for 2014. We continue to project resale activity to remain largely static overall next year, although the in-year pattern is likely to show some cooling in latter part of the year as interest rates gradually rise. While we expect **3.** the Bank of Canada to leave its overnight rate unchanged in 2014, we project bond yields – the main driver of fixed mortgage rates – to drift gently upward throughout the year. Against this restraining effect, homebuyer demand will continue to find support from positive employment trends and steady population growth (and still historically low levels of interest rates). On the supply side, the high number of **2.** condo units currently under construction in Canada's largest markets will pose a risk; however, the evidence to date suggests that these units are being mostly absorbed and, therefore, are unlikely to have a destabilizing effect. We expect that the combination of flattening demand later next year and strong supply of newly completed condo units will rein in price increases in 2014. We project home prices to increase by less than 1% nationally next year. **4.**