

RESEARCH BRIEF

CANADA HOUSING MARKET

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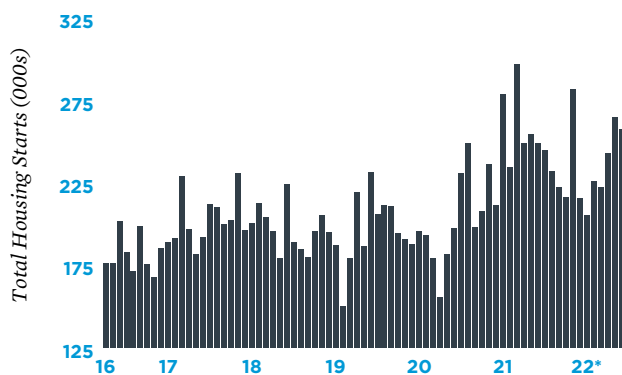
JULY 2022

Home Sales and Prices Continue to Fall; Multifamily Remains Well Positioned

Interest rate hikes deter prospective home buyers. The Bank of Canada increased its overnight rate by 100 basis points in mid-July to 2.5 per cent. This is the fourth rate hike this year, and they are beginning to impact the Canadian housing market. Home sales fell for the third consecutive month, with June seeing a 5 per cent month-over-month decline. As a result, prices have also started to drop. Annually, home prices are still up 15 per cent as of June, but month-over-month, prices fell 1.8 per cent. Much of these decreases were seen in areas that had the strongest gains during the pandemic, such as London, Oakville and Hamilton. Even Calgary and Edmonton have seen prices stagnate, despite a boost in Alberta's energy-based economy. These losses stem from rising interest rates, causing mortgage payments to become less affordable. The five-year fixed mortgage rate is expected to surpass 5 per cent, and the variable rate is anticipated to exceed 4 per cent. This is pushing potential homebuyers to the sidelines and shrinking the buyer pool, while at the same time redirecting them towards the rental market.

Home starts remain stable, despite the decline in sales. Falling home sales and the record monthly drop in housing prices did little to affect construction activity, with housing starts surpassing expectations in June. Nonetheless, there are signs that pre-construction sales are falling, and it is likely that new development will weaken over the second half of the year. In the long-run, this will exacerbate Canada's housing shortage and further hinder affordability and homeownership potential. This reinforces the importance of the multifamily sector to help alleviate the surplus of demand for housing.

Canada Housing Starts



* Through July



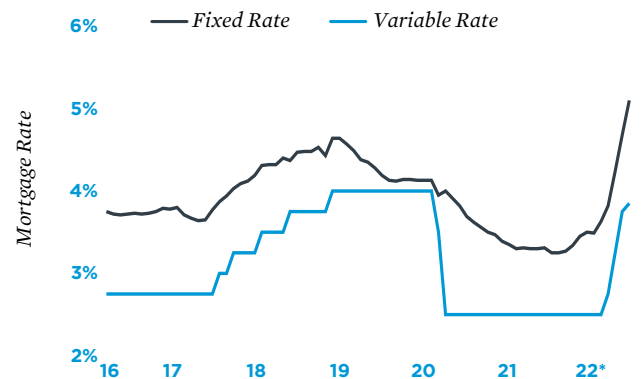
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Developing Trends and CRE Outlook

Mortgage rates expected to surpass pre-pandemic levels. Since the health crisis began, variable mortgage rates have grown in popularity, now accounting for over 50 per cent of new mortgages for the first time in the nation's history. With the BoC's July interest rate hike, both variable and fixed rate mortgages are expected to eclipse their pre-pandemic peaks, and surpass 4 per cent and 5 per cent, respectively. This increases the risk of defaults, which could cause housing prices to fall even further. Based on these new mortgage rates, it is suggested that an average income earning household would have a maximum budget of just under \$500,000 to purchase a home, which is 40 per cent lower than the MLS home price index. This large discrepancy emphasizes the affordability challenges many Canadians are facing and further highlights the need for rental properties.

Multifamily dynamics remain strong. Even with housing prices beginning to drop, homeownership is still out of reach for a growing share of Canadians. Prices are still well-above pre-pandemic levels, when affordability was already a challenge, and now rising interest rates are making mortgages less obtainable. This has caused potential homeowners to remain in the rental market. In most cases, multifamily buildings are more affordable, better located, offer amenities and allow better access to public transit. These factors, coupled with consumers tightening their budgets and slowing down spending due to rising costs, have resulted in strong multifamily performance. Vacancy rates span from 1 per cent to 7 per cent across Canada's major metros, and rent growth forecasts range from 4 per cent to 9 per cent. Strong performance within this sector is expected for the remainder of the year, with vacancy continuing to fall and rents sustaining an upward trajectory.

Fixed Vs. Variable Mortgage Rate



* Through June

Sources: IPA Research Services;
Bank of Canada; Capital Economics; StatCan; CoStar Group Inc.; Altus Data Solutions, CMHC