

# RESEARCH BRIEF

## CANADA HOUSING MARKET

SEPTEMBER 2022

### Housing Market Continues to Slow; Homeownership Rate Trends Lower

**Declining prices begin to offset rising interest rates.** The higher cost of borrowing has cooled Canada's housing market. Prices fell for the sixth consecutive month in August, decreasing 1.7 per cent from July, which is 8.4 per cent below the peak during the global health crisis. With these lower prices, affordability is becoming slightly more attainable as the annual income needed to purchase a home in Canada dropped between June and August. Declining prices are now beginning to outweigh rising interest rates in Canada's uphill battle to achieve affordability. In Toronto, the annual income needed to purchase fell by \$12,550, in Vancouver it decreased by \$8,100 and in Montreal it dropped by \$3,330. Nonetheless, Canada's housing problem has not been alleviated as interest rates are expected to increase further. More supply is needed to achieve long-term affordability.

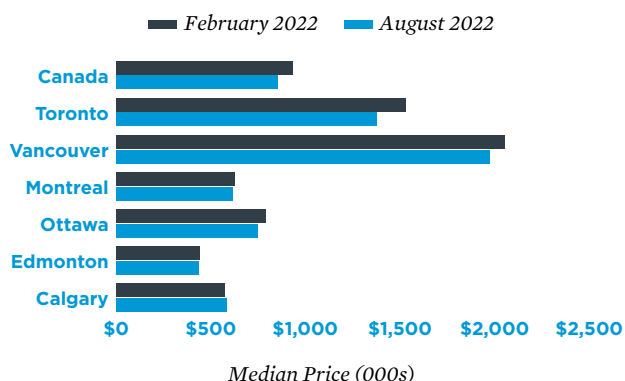
**Ownership continues to dwindle.** While affordability is becoming marginally easier in Canada, a larger share of the population is becoming renters. Over the past year, Canada's homeownership rate fell to a 20-year low of 66 per cent, down from the historic level of 69 per cent in 2011. Elevated single-family home prices, which are a byproduct of Canada's housing supply and demand imbalance, is the main factor causing ownership rates to fall, even as the market is slowly beginning to cool. This imbalance is being exacerbated in the current environment of elevated inflation and rising interest rates, as housing starts are down 16 per cent as of June when compared to the start of 2022. In the long-term, this will restrict supply further and could result in future upward price pressures, causing affordability to become an even greater challenge.

### Policy Implications and CRE Outlook

**Mortgage rates surpass pre-pandemic level.** With the Bank of Canada's September interest rate hike, both variable and fixed rate mortgages have eclipsed 5 per cent. This not only increases the risk of defaults, but also further hinders the ability of many households to purchase a home as debt servicing payments are still out of reach, even in the current environment of declining prices. Additionally, with inflation still well above the Bank's target rate of 2.0 per cent, it is likely the BoC will increase its overnight rate again in October. This will likely cause Canada's homeownership rate to continue on its downward trajectory, while redirecting demand toward the apartment rental market. These challenges emphasizes the headwinds many Canadians face, and further highlights the need for purpose-built rental properties as an affordable housing solution.

**Demand for apartments persists.** Even with housing prices and the annual income needed to own beginning to fall, the ownership pool is shrinking. The median price is 50 per cent higher than July 2019 and mortgage rates continue to rise, causing potential buyers to remain on the sidelines, resulting in an uptick in multifamily demand. The national vacancy rate is expected to end the year at 2.7 per cent, and the average rent growth will be roughly 6 per cent. While rising interest rates may shrink the potential multifamily investor pool, the market is still seeing robust activity as buyers re-strategize and use less leverage, while sellers slowly lower prices and cap rates readjust. This process takes time, as price expectations between buyers and sellers need to realign, but the new environment of elevated interest rates is not stopping investors from capitalizing on sound fundamentals.

### Home Prices Down From Peak Across Country



### Fixed Vs. Variable Mortgage Rate

