RESEARCH BRIEF
CANADA HOUSING MARKET

IPA INSTITUTIONAL PROPERTY ADVISORS
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Heightened Interest Rates not Impacting the Housing Market at a Magnitude Some Feared

Housing correction transitioning to stabilization. In November, the median single-family home price in Canada fell 1.6 per cent month-over-month, down 12.8 per cent from the February peak. While rising interest rates have caused housing prices and sales to decline, the overall impact has been less severe than some expected. The total number of newly-added listings in November continued to track down and are 12 per cent lower than before the Bank of Canada began its tightening cycle, helping soften the pace of price drops. This trend suggests that elevated borrowing costs have not yet caused widespread forced sales, and that price corrections may soon be over. Not all downward pricing pressures are abating, however. The inventory of homes for sale remains on the rise, and while it has only climbed back to the pre-pandemic level, sales times continue to lengthen as elevated borrowing costs soften demand. Nonetheless, with interest rate hikes possibly nearing an end, Canada's housing market correction could stabilize over the coming months.

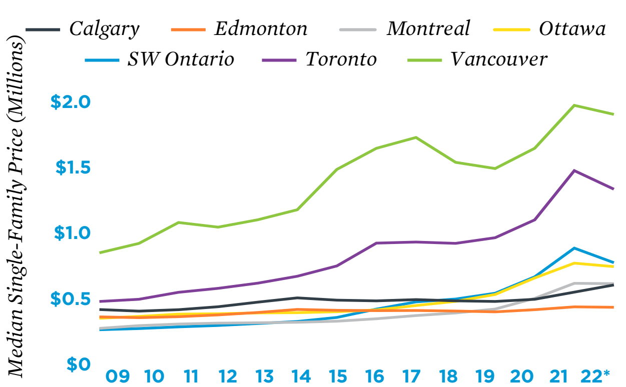
Mortgage rates could be nearing a peak. Both fixed and variable mortgage rates have surpassed 5 per cent and are approaching the 6 per cent range. With broad-based indicators suggesting that inflation is likely to cool in the coming months, however, mortgage rates may be reaching their peaks. Nonetheless, due to the higher cost of borrowing and still elevated prices, ownership remains out of reach for many households, keeping potential buyers in the apartment rental market. As a result, there is a growing need for purpose-built rentals, and more supply is warranted across the country in order to provide residents with a less costly housing solution.

Commercial Real Estate Outlook

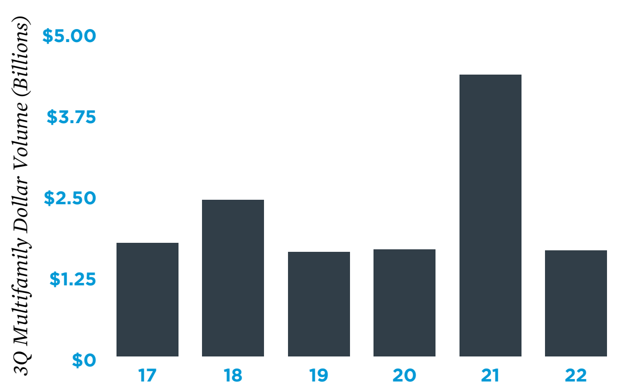
New supply needed, yet construction slows. With ownership out of reach for a growing share of Canadians, new rental supply is needed. Apartment vacancy sits at an extremely low level, and rent nearly grew by a double-digit percentage annually. While development ticked up in recent years, elevated financing costs are beginning to curb construction activity. Roughly 75 per cent of developers are now saying they expect to pause projects as feasibility and profitability are being questioned. Long-term housing affordability, consequently, will likely continue to remain a challenge. Over the coming years, governments and builders will need to find creative solutions to increase supply. Some regions across Canada are introducing solutions, such as Vancouver's new 3x3x3x1 plan, as well as Ontario's More Homes Built Fast Act. Both initiatives look to speed up approval timelines, while minimizing development costs. Nonetheless, these initiatives will take time to be fully realized, and further solutions are needed to address affordability over the long term.

Healthy multifamily fundamentals likely to endure. While investment activity in Canada's multifamily sector is muted compared to last year, robust underlying performance metrics prevail. Demand drivers are anticipated to persist, given historic levels of immigration, which is expected to increase over the coming years. Supply also remains limited, creating a market imbalance. Vacancy, as a result, is likely to continue to trend down, while rents could sustain healthy gains. These sound underlying fundamentals, coupled with a favourable supply and demand dynamic, may act as a backstop to a slowing transaction market once interest rates stabilize.

Housing Prices Soften Across Country



Sales Slow Amid Heightened Borrowing Costs



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* Through November
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; CMHC; CREA; Capital Economics; CoStar Group, Inc.; Statistics Canada