RESEARCH BRIEF
CANADA HOUSING MARKET

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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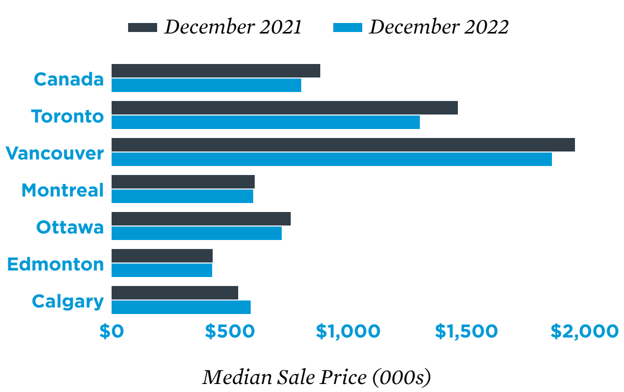
Housing Correction May Be Approaching End; Sales Activity Witnesses a Slight Uptick

Housing market may be nearing inflection point. In December, Canada's single-family housing market showed some resilience after a near yearlong correction. National sales rose 1.3 per cent when compared to November, suggesting that buyers may cautiously be emerging from the sidelines in the hopes of getting ahead of the market. New listings also continued to trend down, falling 6.4 per cent month-over-month, indicating that rising borrowing costs have not yet caused widespread forced sales. The average single-family home price even increased in Calgary, Edmonton and Montreal on a monthly basis. Decreases in Toronto and Vancouver, however, contributed to an overall 1.6 per cent month-over-month fall in the national average price, with this trend likely to continue through the first quarter of 2023. Nonetheless, the slight uptick in demand and drop in supply could be an early indicator that the market's adjustment to higher interest rates may soon be over.

Secondary markets more sensitive to elevated borrowing costs. Although signs looked positive last month, the average price for a single-family home fell 14 per cent from the February peak to the end of 2022. Outside of Toronto, however, Canada's major metros fared slightly better. Home prices in Vancouver and Ottawa fell by 10 per cent, Montreal by 7 per cent and Edmonton by 6 per cent. In comparison, secondary markets, mainly in Ontario, saw prices drop by 20 per cent. Robust gains through 2021 likely contributed, creating an extremely overvalued housing market. Coupled with rising interest rates, a significant supply and demand imbalance emerged. The average home price, as a result, corrected at a larger magnitude.

Home Prices Down Annually Across Country

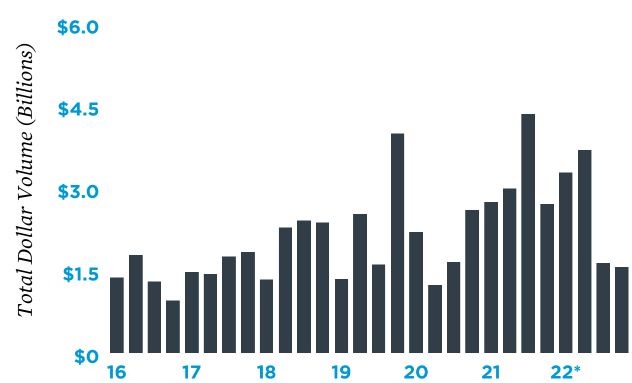


Commercial Real Estate Outlook

Multifamily sector remains well-positioned. Canada's apartment sector was a top-performing asset class in 2022. Year-end vacancy hovered around 2.5 per cent, while annual rent growth neared 8 per cent. These sound underlying fundamentals were mainly a result of limited supply and an uptick in demand. Many potential buyers remained in the rental market, as ownership was out of reach for a growing share of Canadians and a historic level of immigration was recorded. While a softening in single-family home prices may cause some current renters to transition into the ownership market, the average price remains 18 per cent above 2020 levels, which will likely continue to redirect demand toward the rental market. Furthermore, Canada is expected to surpass its 2022 immigration level this year, which will further increase apartment demand. Consequently, national vacancy is expected to continue on its downward trajectory, while rent growth is forecasted to reach 5 per cent annually.

Healthy fundamentals provide a backstop to transaction market. During the first half of 2022, market participants actively searched for multifamily investment opportunities, due to extremely low vacancy and historic rent growth. Rising interest rates, however, curbed investor enthusiasm, causing sales activity to slow noticeably in the second half of the year. Total dollar volume traded was down 55 per cent when compared to the same period in 2021. While this trend is likely to continue through the first quarter of 2023 as many investors currently take a wait-and-see approach, strong underlying metrics should unlock a considerable volume of capital as interest rate uncertainty is expected to abate over the coming months.

Investment Stalls as Lending Rates Rise



** Preliminary Estimate for 4Q*

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada