

RESEARCH BRIEF

CANADA HOUSING MARKET

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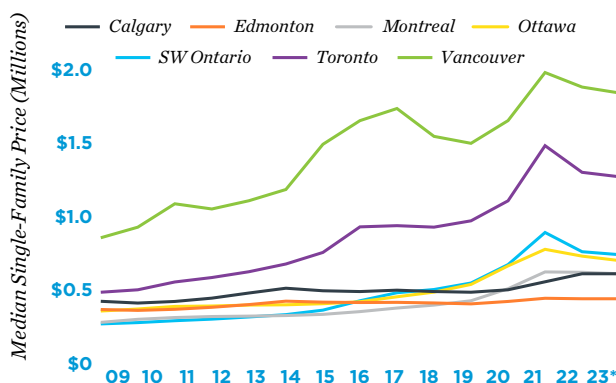
FEBRUARY 2023

Peaking Interest Rates Could Boost Housing Market, Despite Slow Start to the Year

Housing market continues to correct. Canada's average single-family home price fell 2.3 per cent month-over-month in January, a 15 per cent drop from the February 2022 peak. While the general consensus calls for a peak-to-trough price decline of 20 per cent, the Bank of Canada's recent announcement to pause interest rate hikes could aid the nation's slowing housing market. New listings, despite increasing by 3.3 per cent monthly in January, are down 1.1 per cent when compared to the same time last year. Also, the sales-to-new listing ratio has hardly been changed since June 2022, suggesting that elevated borrowing costs have not yet caused widespread force sales. Price corrections, as a result, could be in the later stages as low listing volumes could provide a floor for falling home values. However, if inflationary pressures continue to prevail and the BoC is forced to increase borrowing costs beyond the current level, a prolonged and deeper correction will likely occur.

Mortgage rates becoming more favourable. Early indicators are suggesting that residential borrowing costs have reached their peak. The BoC recently announced it will be pausing interest rate hikes in order to assess the impact previous increases have on the overall economy. Fixed mortgage rates have also begun to trend down as the popularity of variable rate mortgages has grown, with buyers looking to get ahead of the market and capitalize on lower prices. With interest rate uncertainty beginning to abate, sales volume is likely to pick up heading into the spring months, an already active time of the year. Price corrections, as a result, may soon be over if inflationary pressures continue to ease as expected by the BoC.

Single-Family Detached Benchmark Price

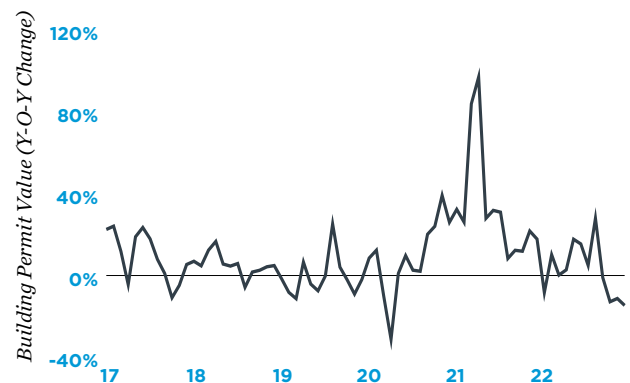


Commercial Real Estate Outlook

Elevated borrowing costs to hinder long-term affordability. While rising interest rates have caused single-family prices to decline, ownership still remains a challenge for many Canadians. Prices are still high, and debt servicing payments are unattainable for potential buyers. The main factor hindering affordability is Canada's lack of housing supply, which higher interest rates are further impacting. In the current environment of elevated borrowing costs, many builders no longer find it feasible to begin new developments. New housing starts, consequently, plunged to 215,000 annualized in January — the lowest since September 2020. Additionally, the total value of residential development permits declined by 15 per cent year-over-year in December. Single-family accounted for 19 per cent of the drop, while multifamily was responsible for 12 per cent. Over the long term, this slowdown in construction will continue to cause supply to chase demand. Housing affordability, as a result, will remain a challenge, despite the current correction the market is experiencing.

Multifamily well-positioned. Ending 2022, the apartment rental sector saw national vacancy hover around 2.0 per cent, and annual rent growth surpassed 7 per cent. While elevated interest rates are slowing Canada's economy, the apartment rental sector remains well-positioned as limited supply and prevailing demand should keep fundamentals healthy. Despite a softening in single-family housing prices, many potential buyers continue to be redirected to the rental market, as ownership remains a challenge for a sizable share of Canadians. Additionally, Canada is expected to reach historic immigration levels, further increasing apartment demand.

Interest Rates Stall Residential Development



* Through January

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



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