RESEARCH BRIEF
CANADA HOUSING

INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

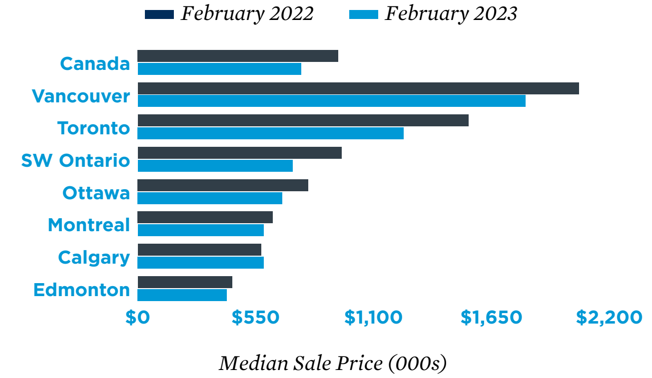
MARCH 2023

The Bottom of Canada's Housing Market Downturn is in Sight

Uptick in activity expected as spring months near. February marked the one-year anniversary of Canada's housing market slowdown. On a year-over-year basis, the price of a single-family home has dropped 16 per cent as elevated borrowing costs curbed buyer enthusiasm and created further affordability hurdles. Nonetheless, positive signs are emerging as the Bank of Canada has paused rate hikes, with further increases unlikely. Additionally, national home sales posted a 2.3 per cent monthly increase in February, while new listings fell 7.9 per cent. As a result, the sales-to-new listings ratio increased, indicating that buyers are emerging from the sidelines and forced sales have not yet occurred. While the price of a single-family home declined 1.2 per cent month-over-month in February, this was the smallest drop since last March. Consequently, price stabilization may occur over the coming months as borrowing costs have likely peaked and transaction activity tends to rise in the spring months.

Barriers to homeownership persist. Given the BoC's pause, variable mortgage rates have likely peaked at over 6 per cent, with fixed rates above 5 per cent. Consequently, housing affordability remains a challenge as borrowing costs are expected to remain elevated for the foreseeable future, and despite declining home values, prices remain out of reach for many Canadians. Additionally, with interest rates showing signs of stabilizing, an uptick in sales activity is likely as potential buyers look to get ahead of the market. Home prices, as a result, could begin to increase in the second half of this year, furthering long-term affordability challenges. Investment in rental development is needed to provide lower-cost housing options.

Home Prices Down from Peak Across Country



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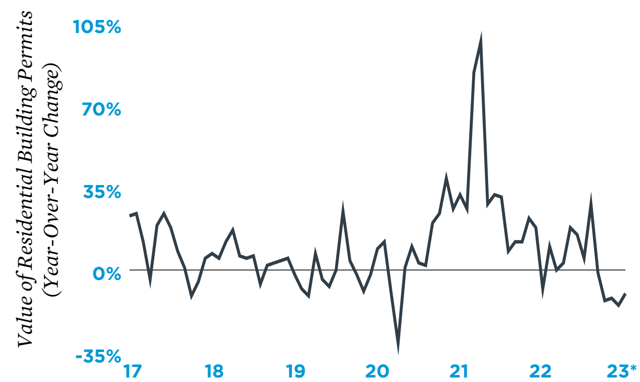
Commercial Real Estate Outlook

Lack of supply provides a price floor. In addition to an uptick in sales activity, Canada's limited housing stock provides further support to the belief that single-family home prices are nearing their trough. Since the early 2000s, supply has lagged demand, and this trend is likely to continue over the coming years. With Canada increasing its immigration target to historic levels, household formation is expected to rise, which will further fuel demand. Additionally, rising interest rates have stalled development activity, indicating that long-term supply will continue to lag. The value of residential building permits was down 10 per cent year-over-year as of January, and has been in negative territory for five consecutive months. Consequently, long-term affordability will continue to be a challenge for many Canadians as a supply and demand imbalance will persist. As a result, over the coming years many potential buyers will remain on the sidelines and be redirected to the apartment rental sector.

Multifamily well-positioned. In 2022, national apartment vacancy fell 120 basis points to 1.9 per cent, helping rent growth to reach 7.3 per cent annually — both of which were the largest changes on record. These robust fundamentals were a byproduct of homeownership challenges, but also due to a record level of new immigrants arriving in Canada. Looking forward, these trends are expected to continue, as borrowing costs are anticipated to remain elevated and last year's record level of immigration is planned to be surpassed this year. Vacancy is forecast to continue on its downward trajectory, while rent growth is expected to reach roughly 6.0 per cent annually in 2023. Positive investor sentiment is expected to form as a result.

Elevated Interest Rates Curb 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