RESEARCH BRIEF
CANADA HOUSING

INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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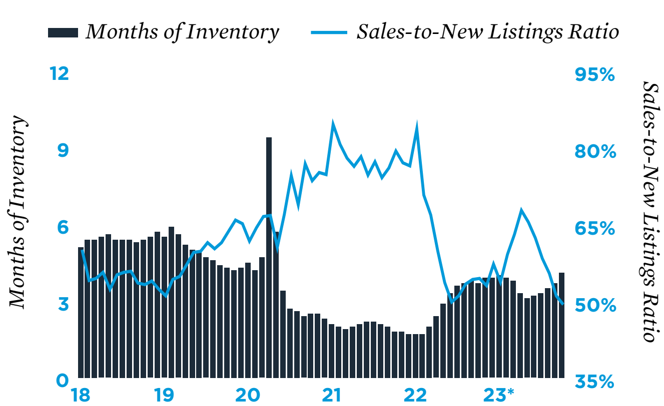
Canada's Housing Market Softens as Prices Give Up Spring Gains

Housing market losing momentum. After single-family home prices fell 17 per cent over the course of last year, Canada's housing market began to recover as the Central Bank paused its rate hiking cycle in March. Prices grew 8 per cent over the spring. However, as inflationary pressures remained sticky, the Bank of Canada resumed rate hikes in June. This has caused Canada's housing market to cool once again as bond yields rose and mortgage rates hit new highs. Many potential buyers paused their search, and monthly prices have now contracted for three consecutive months, down 1.1 per cent in October. Home sales also declined 5.6 per cent, bringing the sales-to-new listings ratio to 49.5 per cent — a 10-year low. With this measure indicating a buyers market, further price easing is likely to occur over the short-term. Due to limited supply, coupled with historic immigration, the long-term outlook remains optimistic.

Concerns grow over forced sales. Mortgage arrears in Canada remain low, which is likely due to the fact that only 40 per cent of mortgage holders have faced higher payments as of June. With this number set to approach 80 per cent by the end of 2024, housing risks are beginning to grow as this may result in forced sales, causing prices to deteriorate at a much faster pace than expected. This is one reason why it is widely believed the BoC has reached the end of its historic tightening cycle as the bank has stated this is a growing concern. As a result, many believe interest rate cuts will happen as soon as the second quarter of next year, which should help mitigate some of the risks associated with mortgage renewals and the possibility of forced sales, helping to preserve Canada's housing market.

Indicators Point to Further Price Easing

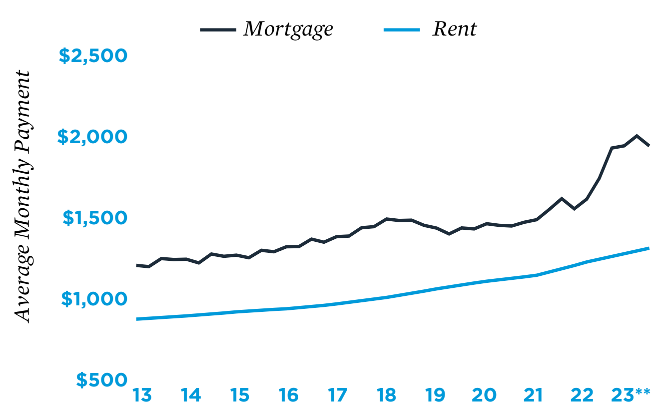


Commercial Real Estate Outlook

Multifamily continues to capture demand. Apartment rentals have seen robust performance in recent years. The nation's vacancy rate sat at an all-time low, while annual rent growth reached a record level last year. This is largely due to robust population growth amid historic immigration, as well as growing homeownership hurdles. While home prices have cooled over the past two years, given the BoC's rapid rate hiking cycle, elevated borrowing costs have actually created further ownership challenges. Despite rental rates becoming increasingly elevated, the average monthly mortgage payment sat roughly 50 per cent above the nation's average monthly rent. This price discrepancy has kept many potential buyers in the rental market as still out-of-reach prices and growing debt liabilities curb ownership demand. As a result, further rental supply is needed as borrowing costs are expected to remain elevated for a prolonged period of time. This will likely continue to diminish homeownership prospects and redirect housing demand toward the rental sector.

Apartment rentals remain preferred investment option. Investors continued to favour multifamily assets, despite total dollar volume transacted being down roughly 30 per cent year-over-year as of the third quarter. As a share of total investment dollars, multifamily captured just over 25 per cent, which only trailed industrial, as robust population growth continues to support demand. Looking forward, multifamily is expected to remain a sought-after asset. Immigration is projected to reach new highs in 2024, and interest rates are likely to remain at elevated levels throughout the year. As a result, multifamily demand is expected to hold.

Homeownership a Growing Challenge



** Through October; **Rent forecast, Mortgage Payments through June*
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; CMHC; CREA; Capital Economics; CoStar Group, Inc.; Statistics Canada

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