RESEARCH BRIEF
CANADA HOUSING

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

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Housing Market Softens Further, but Possible Rate Cuts Could Spur Activity Early Next Year

Market participants wait on the sidelines. Canada's housing market remained sluggish in November as the number of sales edged down 0.9 per cent monthly. The median price of a single-family home also contracted for the third consecutive month, falling 1.2 per cent. On an annual basis this translated into a 1.0 per cent gain. Muted sales activity can largely be attributed to the Bank of Canada resuming its monetary tightening cycle in June. This pushed many potential homebuyers back to the sidelines and curbed the momentum that began to build in February. Despite this, the nation's sales-to-new listings ratio inched up to 49.8 per cent — the first increase since April — as a pullback in new listings outpaced the contraction in sales activity. Forced sales remained minimal and some potential sellers are also now waiting until activity picks up in the early parts of next year amid potential interest rate cuts.

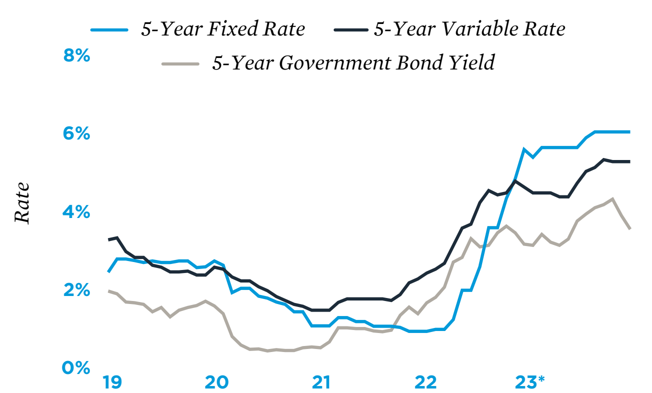
Market could stabilize with activity picking up in the new year. Given Canada's economic contraction in the third quarter, coupled with falling inflation and rising unemployment, it is becoming increasingly likely that the Central Bank has reached the end of its monetary tightening cycle. Bond yields have been falling over the past two months, with money markets now pricing in an interest rate cut as early as March of next year. As a result, housing market activity is likely to gain momentum in the early parts of 2024. Mortgage rates are already stabilizing and in some cases falling, while limited housing supply across the nation will act as a backstop to pricing. This will cause competition among potential buyers looking to get ahead of the market and capitalize on softening prices.

Commercial Real Estate Outlook

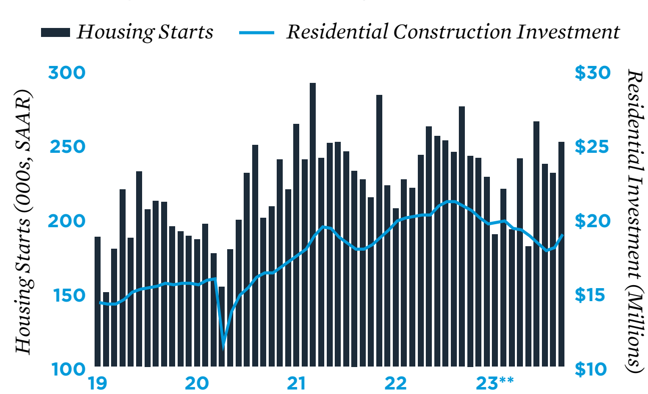
Nation facing a housing shortage. Canada's population grew at a record-setting pace over the past year ending in September, expanding 3.0 per cent. At the same time, rising interest rates have cooled residential development. Since the peak witnessed in 2022, investment in single-family construction was down 25 per cent as of September, with multifamily down 8.0 per cent. This was further highlighted by housing starts. While holding up well, given rapidly rising interest rates, they were still down nearly 10 per cent year-to-date as of November, compared to the same period in 2022. Housing supply is significantly lagging demand, with an estimated shortage of roughly 3.5 million homes. As a result, purpose-built rentals are needed, which is a main reason why the federal government recently announced the Enhanced GST Rental Rebate in a bid to kickstart apartment construction. This incentive can translate into a minimum 5.0 per cent tax elimination and has the potential to unlock much-needed rental supply over the coming years.

Multifamily continues to show robust performance. Despite home prices softening, elevated borrowing costs are creating further homeownership challenges. Potential buyers continue to find better value in Canada's apartment rental sector. Combined with ongoing record population growth and limited housing supply, multifamily fundamentals are set to have another year of robust performance in 2024. The national vacancy rate is forecast to remain below equilibrium levels at 2.0 per cent, helping annual rent growth remain above the long-term average at roughly 5.0 per cent. Apartment rentals, as a result, will hold as a preferred investment option.

Mortgage Rates Have Likely Peaked



Housing Demand-Supply Gap Set to Widen



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* Intra-day as of December 14; ** Through September
Sources: IPA Research Services; Altus Data Solutions; CMHC; Capital Economics; CoStar Group, Inc.; RateHub; Statistics Canada